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Foreword

This 2018 Indonesia Banking Booklet constitutes a publication media presenting brief information concerning Indonesian banking industry. This booklet is expected to enable the readers to obtain brief information concerning direction of the banking policies in 2018 as well as policies and regulations in the banking sector issued by Indonesia Financial Services Authority (OJK) in 2017.

In contrast to the previous edition, this edition is divided into four chapters, as follows:

- Chapter I, which contains (i) OJK’s vision, missions, functions and tasks and (ii) definitions, prohibition and business activities of the banking industry;
- Chapter II, which contains the authorities and policies of OJK in the banking sector;
- Chapter III, which contains the direction of OJK’s policies in 2018 and the development of OJK’s policies in 2017; and
- Chapter IV, which contains banking regulations that are still in force, including OJK’s Regulations issued in 2017.

We realize that there are yet shortcomings in the presentation of this 2018 Indonesia Banking Booklet in terms of contents and formats, however, we still hope that the information presented can yet provide optimal benefits to the readers.

Jakarta, May 2018
Department of Banking Licensing and Information
Indonesia Financial Services Authority
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CHAPTER 1

INDONESIA FINANCIAL SERVICES AUTHORITY
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A. INDONESIA FINANCIAL SERVICES AUTHORITY

Indonesia Financial Services Authority/Otoritas Jasa Keuangan (OJK) is an independent institution and free from interferences by other parties which has functions, tasks, and authorities of regulation, supervision, on-site supervision, and investigation of the Financial Services Sector (FSS) as referred to the Law of the Republic of Indonesia Number 21 of 2011 on Financial Services Authority.

OJK’s Vision and Mission

Vision
To become a supervising agency of the financial services industry, which is trustworthy, protects the interests of consumers and public, and able to develop the financial services industry into a national economic pillar that has global competitive power as well as able to advance public welfare.

Mission
1. To realize the establishment of all activities in the financial services sector in an orderly, fair, transparent, and accountable manner.
2. To realize a financial system that grows in a sustainable and stable manner.
3. To protect the interests of consumers and public.

OJK’s Objective

OJK is established with the objective that all activities in the FSS:
1. Operate in an orderly, fair, transparent, and accountable manner;
2. Are able to create a financial system that grows in a sustainable and stable manner; and
3. Are able to protect the interests of consumers and public.

OJK’s Strategic Values

1. Integrity means acting in an objective, fair, and consistent manner in accordance with the code of ethics and organizational policies by upholding
honesty and commitments.
2. Professionalism means working with full responsibility based on high competence to achieve the best performance.
3. Synergy means undertaking productive and quality collaboration with all stakeholders, both internal and external.
4. Inclusivity means being open to and accepting diverse stakeholders as well as widening public’s opportunities and access to the financial industry.
5. Visionary means having extensive insight and foresight (forward looking) as well as thinking out of the box.

OJK’s Functions and Tasks
OJK has the function of establishing an integrated system of the regulation and supervision of overall activities in the FSS. In addition, OJK performs the task of regulation and supervision of:
1. Financial service activities in the Banking sector;
2. Financial service activities in the Capital Market sector; and

OJK’s Organization
OJK is led by the Board of Commissioners comprising nine members appointed by a Presidential Decree and has collective and collegial nature, with the following membership arrangement:
1. Chairman, concurrently member;
2. Vice Chairman functioning as the Head of Ethics Committee, concurrently as member;
3. Chief Executive functioning as Banking Supervisor, concurrently as member;
4. Chief Executive functioning as Capital Market Supervisor, concurrently as member;
5. Chief Executive functioning as Insurance, Pension Fund, Financing Institutions, and Other Financial
Services Institutions Supervisor, concurrently as member;
6. Head of Board of Auditors, concurrently as member;
7. Commissioner in charge of Consumer Education and Protection division;
8. Ex-officio member from Bank Indonesia, who is concurrently a member of the Board of Governors of Bank Indonesia; and
9. Ex-officio member from the Ministry of Finance, who is an Echelon I level official Ministry of Finance.

The Inauguration of OJK’s 2017-2022 Board of Commissioners

On July 20, 2017, all of the seven Members of OJK’s 2017-2022 Board of Commissioners (ADK) have been inaugurated to replace the previous ADK whose term of office has ended. The names of the seven members of OJK’s 2017 – 2022 Board of Commissioners are as follows:

1. Wimboh Santoso as Chairman of Board of Commissioners
2. Nurhaida as Vice Chairman of Board of Commissioners
3. Heru Kristiyana as Executive Head of Bank Supervisors
4. Hoesen as Executive Head of Capital Market Supervisors
5. Riswinandi as Executive Head of Non-Bank Financial Industry Supervisors
6. Ahmad Hidayat as Chairman of Audit Board
7. Tirta Segara as Member in charge of Consumer Education and Protection

After their inaugurations, the seven Members of OJK’s Board of Commissioners will execute tasks as mandated by Law of The Republic of Indonesia number 21 of 2011 concerning OJK together with OJK’s ex-officio’s Board of Commissioners from Bank Indonesia, Mirza Adityaswara, and OJK’s ex-officio’s Board of Commissioner from Ministry of Finance, Mardiasmo.

Previously, the names of the seven Members of OJK’s 2012-2017 Board of Commissioners were Muliaman D. Hadad, Rahmat Waluyanto, Nelson Tampubolon, Firdaus Djaelani, Nurhaida, Ilya Avianti, and Kusumaningtuti S. Soetiono.
Figure 1.1. OJK’s Organization Structure

Board of Commissioners

Member 1 Chairman
Member 2 Vice Chairman/Head of Ethics Committee
Member 3 Chief Executive of Bank Supervisor
Member 4 Chief Executive of Capital Market Supervisor
Member 5 Chief Executive of NBFI Supervisor
Member 6 Head of Board of Auditors
Member 7 Commissioner in charge of Consumer Education and Protection
Member 8 Ex-Officio member from Bank Indonesia
Member 9 Ex-officio member from the Ministry of Finance

Directors of Operations

ADK 1 Bidang 1
ADK 1 Bidang 2
ADK 1 Bidang 3
ADK 1 Bidang 4
ADK 1 Bidang 5
ADK 1 Bidang 6
ADK 1 Bidang 7
SCPR

For more information at www.ojk.go.id
B. BANKING
Banking refers to everything related to a bank, which includes the institution, business activities, as well as the procedures and processes involved in the execution of bank business activities.

Definition
1. Bank are business entities that collect funds from the public in the form of deposits and channels the funds to the public in the form of credits and/or other forms for the purpose of enhancing the living standard of the community.
2. Commercial Bank (CB) are banks that conduct business activities in the conventional manner and/or based on sharia principles, which within its business activities provide services related to payment flows.
3. Rural Banks (RB) are banks that conduct business activities in the conventional manner or based on sharia principles, which not provide services related to payment flows.
4. Conventional Banks are banks that conduct business activities in the conventional manner. Based on the types, there are Conventional Commercial Banks (CCB) and Rural Banks (RB).
5. Sharia Bank are banks that conduct business activities based on Sharia Principles. Based on the types, there are Sharia Commercial Banks (SCB) and Sharia Rural Banks (SRB).
6. Sharia Principles are Islamic law principles in banking activities based on fatwa (legal decisions) issued by an institution that has the authority to determine fatwa in the field of sharia.

Business Activities of the Bank
1. Business Activities that can be undertaken by any CB are:
   a. Collect funds from public in the form of deposits, comprising demand deposits (giro), term deposits, certificates of deposit, savings deposits,
and/or other equivalent forms;
b. Extending credits;
c. Issuing promissory notes;
d. Buying, selling, or guaranteeing at own risks as well as for the interests and at the instructions of its customers, in the forms of:
1) Drafts/bills of exchange, including drafts accepted by banks, which validity periods are no longer than the norm in the trading of referred drafts;
2) Promissory notes and other commercial papers which validity periods are no longer than the norm in the trading of referred notes;
3) State treasury bills and government securities;
4) Certificates of Bank Indonesia (SBI)
5) Bonds;
6) Commercial papers with maturity periods of up to one year; and
7) Other commercial paper instruments with maturity periods of up to one year.
e. Transferring money both for own interest as well as for the interests of customers;
f. Placing funds at, borrowing funds from, or lending funds to other banks, using notes, telecommunication facilities, as well as sight drafts, checks, or other facilities;
g. Receiving payments from claims on securities and making settlements with or between third parties;
h. Providing deposit boxes for safe keeping of goods and securities;
i. Undertaking custodial activities for the interests of other parties based on contracts;
j. Undertaking fund placements from customers to other customers in the form of securities not listed at the stock exchanges;
k. Undertaking factoring activities, credit card business, and trust activities;
1. Providing financing and/or undertaking other activities based on Sharia Principles, in accordance with prevailing regulations;

m. Conducting other activities commonly undertaken by banks as long as they are not in conflict with the Act concerning Banking and other prevailing legislations;

n. Conducting activities in foreign currencies by complying with prevailing regulations;

o. Undertaking capital participation activities at other banks or companies in the financial field, such as leasing business, venture capital, security company, insurance, as well as settlement and custodial clearing institution, by complying with prevailing regulations;

p. Conducting temporary capital participation activities to resolve the impact of credit failure or financing failure based on Sharia Principles, with the requirement to withdraw its participation, by complying with prevailing regulations;

q. Acting as the founder of pension funds and management of pension funds in accordance with the provisions of prevailing pension fund legislations; and

r. Conducting bank business activities in the form of custodianship with management/trust.

2. Business Activities that can be undertaken by any SCB and any Sharia Business Unit (SBU) are:

a. Collecting funds in the form of Deposits, comprising Demand Deposits (Giro), Savings Deposits, or other equivalent forms based on wadi’ah agreement or other agreement that are not in conflict with Sharia Principles;

b. Collecting funds in the form of investments, comprising Deposits, Savings Deposits or other equivalent forms based on mudharabah agreement or other equivalent agreement that are not in conflict with Sharia Principles;

c. Channeling yield-sharing financing based on mudharabah agreement, musyarakah
agreement, or other agreement that are not in conflict with Sharia Principles;
d. Channeling financing based on murabahah agreement, salam agreement, istishna agreement, or other agreement that are not in conflict with Sharia Principles;
e. Channeling financing based on qardh agreement or other agreement that are not in conflict with Sharia Principles;
f. Channeling financing for leases of movable or immovable properties to customers based on ijarah agreement and/or lease purchase in the form of Ijarah Muntahiya Bittamlik (IMBT) or other agreement that are not in conflict with Sharia Principles;
g. Undertaking debt taken-overs based on hawalah agreement or other agreement that are not in conflict with Sharia Principles;
h. Undertaking debit card and/or financing card businesses based on Sharia Principles;
i. Buying, selling or guaranteeing at own risks third-party securities issued based on real transactions and Sharia Principles, such as among others ijarah, musyarakah, mudharabah, murabahah, kafalah, atau hawalah agreement;
j. Buying securities based on Sharia Principles issued by the government and/or BI;
k. Receiving payments from claims on securities and making settlements with or between third parties based on Sharia Principles;
l. Providing deposit boxes for safe keeping of goods and securities based on Sharia Principles;
m. Transferring money, both for own interest as well as for the interests of customers based on Sharia Principles;
n. Providing letter of credit or bank guarantee facilities based on Sharia Principles;
o. Conducting other activities common in the banking field and social field as long as they are not in conflict with Sharia Principles and in
accordance with the provisions of prevailing legislations;
p. Conducting foreign currency activities based on Sharia Principles;
q. Conducting temporary capital participation activities to resolve the impact of financing failure based on Sharia Principles, with the requirement to withdraw its participation;
r. Conducting activities in the capital market as long as they are not in conflict with Sharia Principles and the provisions of prevailing legislations in the capital market field;
s. Operating banking activities or products based on Sharia Principles by using electronic devices;
t. Issuing, offering, and trading in short-term securities based on Sharia Principles through the money market, both directly as well as indirectly; and
u. Providing SCB other products or undertaking other activities that are based on Sharia Principles.

3. In addition to activities referred to in number two above, business activities listed below can only be conducted by SCB, namely:
a. Buying, selling, or guaranteeing at own risks third-party securities issued based on real transactions and Sharia Principles, such as ijarah, musyarakah, mudharabah, murabahah, kafalah, or hawalah agreement;
b. Undertaking custodianship for the interests of other parties based on agreement that are in accordance with Sharia Principles;
c. Undertaking the function of trustee based on wakalah agreement;
d. Conducting capital participation activities at other SCB or financial institutions that conduct business activities based on Sharia Principles;
e. Acting as the founder and management of pension funds based on Sharia Principles; and
f. Issuing, offering, and trading in long-term
securities based on Sharia Principles through the capital market, both directly as well as indirectly;

4. Business Activities that can be undertaken by a RB are:
   a. Accumulation of funds from the public in the form of deposits, comprising term deposits, savings deposits, and/or other equivalent forms;
   b. Extending credits;
   c. Providing financing and/or fund placements based on Sharia Principles, in accordance with regulations set by Bank Indonesia; and
   d. Undertaking fund placements in the forms of Certificates of BI, term deposits, certificates of deposits and/or savings deposits at other banks.

5. Business Activities that can be undertaken by a SRB are:
   a. Collecting funds from the public in the form of:
      1) Deposit in the form of savings deposit or equivalent forms based on wadi’ah agreement or other agreement that are not in conflict with Sharia Principles; and
      2) Investment in the form of a term deposit or savings deposit or other equivalent forms based on mudharabah agreement or other agreement that are not in conflict with Sharia Principles.
   b. Channeling funds to the public in the forms of:
      1) Yield-sharing financing based on mudharabah or musyarakah agreement;
      2) Financing based on murabahah, salam, or istishna agreement;
      3) Financing based on qardh agreement;
      4) Financing for leases of movable or immovable properties to customers based on ijarah agreement or lease purchase in the form of IMBT; and
      5) Debt taken-over based on hawalah agreement.
   c. Fund placements at other sharia banks in the form of trusts based on wadi’ah agreement or
investments based on mudharabah agreement and/or other agreement that are not in conflict with Sharia Principles;

d. Transferring money, both for own interest as well as for the interests of customers, through the accounts of the SRB existing at SCB, CCB, and SBU; and

e. Providing other products or undertaking other activities of sharia banking in accordance with Sharia Principles based on OJK’s approvals

6. Business Support Activities

Business support activities are other activities conducted by banks outside bank business activities. These business support activities are related to human resources, risk management, compliance, internal audit, accounting and finance, Information Technology (IT), logistics and security.

**Business Activities Prohibited For Banks**

1. CB are prohibited from conducting the following business activities:
   a. Undertaking capital participation, except when related to the activities referred to in Business Activities of the Bank number 1 letter o and p in the explanation on CB Business Activities;
   b. Conducting insurance business; and
   c. Undertaking other businesses outside business activities referred to in Business Activities of the Bank number 1.

2. SCB and SBU are prohibited from conducting the following business activities:
   a. Conducting business activities that are in conflict with Sharia Principles;
   b. Conducting activities of selling and buying shares directly in the capital market;
   c. Undertaking capital participations, except:
      1) Conducting capital participation activities at a SCB or Financial Institution that conducts business activities based on Sharia Principles and conducting temporary capital
participation activities to resolve the impact of financing failure based on Sharia Principles, with the requirement to withdraw its participation (specifically for SCB); and

2) Conducting temporary capital participation activities to resolve the impact of financing failure based on Sharia Principles, with the requirement to withdraw its participation (specifically for SBU);

d. Conducting insurance business activities, except as a marketing agent of sharia insurance products.

3. RB are prohibited from conducting the following business activities:
   a. Receiving deposits in the form of demand deposits (giro) and participating in payment flow;
   b. Conducting business activities in foreign currencies except as a Foreign Currency Trader with OJK’s approval;
   c. Undertaking capital participations;
   d. Undertaking insurance business; and
   e. Undertaking other businesses outside those referred to in Business Activities of the Bank number 4.

4. SRB are prohibited from conducting the following business activities:
   a. Conducting business activities that are in conflict with Sharia Principles;
   b. Receiving deposits in the form of demand deposits (giro) and participating in payment flow;
   c. Conducting business activities in foreign currencies except in foreign currency exchanges with OJK’s approval;
   d. Conducting insurance business activities, except as a marketing agent of sharia insurance products;
   e. Undertaking capital participations, except in institutions established for overcoming liquidity problems of SRB; and
f. Undertaking other businesses outside business activities of SRB referred to in Business Activities of the Bank number 5.
CHAPTER 2

OJK AUTHORITY TO BANKING INDUSTRY
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A. **OJK Authority to Banking Industry**

Based on Law of The Republic of Indonesia number 21 of 2011 concerning OJK, in relation to the implementation of the tasks concerning regulating and supervising of the banking sector, OJK has the following authorities:

1. The right to license is an authority to set the procedures for bank licensing and establishment, which covers the granting and revocation of bank business licenses, granting of permits for opening, closing, and transferring bank offices, granting of approvals on bank ownership and management, granting of licenses to banks for conducting certain business activities.

2. The right to regulate is an authority to set regulations concerning banking business aspect and activities for the purpose creating a sound banking industry that is able to provide banking services desired by the public.

3. The right to control involves:
   a. On-site supervision, which comprises general examination and specific examination, with the objective of obtaining a picture of bank financial situation and monitoring bank compliance level to prevailing regulations, as well as finding out whether there are unsound practices that endanger bank business sustainability; and
   b. Off-site supervision, which is supervision using monitoring tools such as periodic reports submitted by banks, reports of examination results, and other information.

4. The right to impose sanction is the authority to impose sanctions in accordance with the provisions of legislations on a bank when the bank does not fully comply or does not comply with regulations. This action contains an element of nurturing so that banks operate in accordance with sound banking principles.

5. The right to investigate in accordance with the law gives OJK the authority to perform investigations within the FSS, including in the banking sector. Investigations shall be conducted by investigators in Republic of Indonesia's Police and Civil Servant...
officers in OJK. Results of investigations shall be submitted to public prosecutors for prosecutions.

6. Authority to conduct consumer protection, which is the authority to conduct consumer protection in the form of prevention of consumer and society losses, consumer complaint services, and legal defense.

B. Bank Supervision

In carrying out bank supervision task, at present OJK runs its supervision system by using two approaches, namely:

1. Compliance Based Supervision (CBS), which is based on the monitoring of bank compliance to regulations that are related to bank operation and management in the past with the objective of ensuring that properly and correctly in accordance with prudential principle. Supervision on the fulfilment of the compliance aspect is an integral part of the implementation of risk based bank supervision; and

2. Risk Based Supervision (RBS) is bank supervision that uses risk-based strategies and methodologies that enable bank supervisors to detect significant risks at early stage and take appropriate and timely supervisory measures.

Bank risk-based supervision/examination is performed on the following types of risks:

<table>
<thead>
<tr>
<th>Types of Bank Risks</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Risk</td>
<td>Risk that arises from failure on the part of a counterparty in meeting its obligation.</td>
</tr>
<tr>
<td>Market Risk</td>
<td>Risk that arises from a movement in market variables (adverse movement) in a portfolio owned by bank that can cause a loss to the bank. Market variables are among others interest rate and exchange rate.</td>
</tr>
<tr>
<td>Liquidity Risk</td>
<td>Risk that is due to bank’s inability to meet its obligations that have become due.</td>
</tr>
<tr>
<td>Operational Risk</td>
<td>Risk that is due to inadequate and/or non-functioning internal process, human error, system failure, or existence of an external</td>
</tr>
<tr>
<td>Types of Bank Risks</td>
<td>Description</td>
</tr>
<tr>
<td>--------------------</td>
<td>-------------</td>
</tr>
<tr>
<td><strong>Legal Risk</strong></td>
<td>Risk that is due to the existence of weaknesses in the juridical aspect. Juridical aspect weaknesses are caused among others by the existence of lawsuits, absence of supporting legislations or weaknesses in the agreements such as unfulfilment of agreement validity requirement or flawed collateral agreement.</td>
</tr>
<tr>
<td><strong>Reputation Risk</strong></td>
<td>Risk that is due to among others the existence of a negative publication related to bank business activities or negative perception on the bank.</td>
</tr>
<tr>
<td><strong>Strategic Risk</strong></td>
<td>Risk that is due to inaccuracy of a decision made and/or implementation of a strategic decision as well as a failure in anticipating changes in business environment.</td>
</tr>
<tr>
<td><strong>Compliance Risk</strong></td>
<td>Risk that is due to bank not complying or not executing the provisions of legislations and other prevailing regulations.</td>
</tr>
<tr>
<td><strong>Rate of Return Risk</strong></td>
<td>Risk arising from changes in rates of return paid by bank to the customers that are caused by changes in rates of return received by bank from funds channeling, which can influence the behavior of third-party fund customers of the bank.</td>
</tr>
<tr>
<td><strong>Equity Investment Risk</strong></td>
<td>Risk arising from the situation in which bank participates in bearing customer business losses financed in a yield-sharing based financing, those using the net revenue sharing method as well as those using the profit and loss sharing method.</td>
</tr>
<tr>
<td><strong>Intra-group transaction risk</strong></td>
<td>Risk that is due to dependency of one entity, directly or indirectly, on another entity in the same financial conglomerate for the purpose of fulfilling obligations under written as well as unwritten agreements, whether followed and/or not followed by fund transfers.</td>
</tr>
</tbody>
</table>
### Chapter 2

#### Table 2.2. Matrix of Implementation of Risk Based Supervision to Bank and Conglomerates

<table>
<thead>
<tr>
<th>No</th>
<th>Type of Risk</th>
<th>CCB</th>
<th>SCB/ SBU</th>
<th>Conglomerates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Credit Risk</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Market Risk</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Liquidity Risk</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Operational Risk</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>5</td>
<td>Legal Risk</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>6</td>
<td>Reputation Risk</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>7</td>
<td>Strategic Risk</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>8</td>
<td>Compliance Risk</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>9</td>
<td>Rate of Return Risk</td>
<td>-</td>
<td>✓</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Equity Investment Risk</td>
<td>-</td>
<td>✓</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>Intra-Group Transaction Risk</td>
<td>-</td>
<td>-</td>
<td>✓</td>
</tr>
<tr>
<td>12</td>
<td>Insurance Risk</td>
<td>-</td>
<td>-</td>
<td>✓</td>
</tr>
</tbody>
</table>

#### C. Bank Preliminary Investigation

Banks, as intermediation institutions, are often used as the vehicles and/or targets for the unlawful enrichment of selves, family members, or certain groups which can ultimately lead to the banks experiencing structural problems. Such actions can be done either by Members of the Board of Commissioners and Board of Directors, employees, affiliated parties, owners / shareholders of the bank, or other parties, in which, if no preventive measures (to prevent the recurrence of such actions) and repressive measures (on parties proven to have committed such actions) are taken, may cause a decline in the level of public confidence in the banking system.

Act No. 21 of 2011 concerning Otoritas Jasa Keuangan has given a mandate to OJK on the regulation and supervision of banks. In performing bank supervision task, OJK may find deviations from banking regulations, both those of administrative nature as well as those that have indications of banking criminal offenses. The handling of deviations from banking regulations that have indications...
of banking criminal offenses need to be made cautiously in order to avoid impacts that might influence bank reputation and for the purpose of creating a banking system that is sound, which in turn supports financial system stability.

Information on deviations from banking regulations that have indications of banking criminal offenses may come from results of bank supervision and/or other parties. In the event the handling of these deviations needs to be followed up with investigations, the investigations will be conducted on the bank’s affiliated parties and/or other parties that use the bank as a vehicle and/or target. In addition, OJK has the authority to impose administrative sanctions on banks in accordance with prevailing legislations.

The investigation methodology used for finding out deviations that have occurred and the related parties as well regulations that have been violated involves among others:

1. Undertaking of a research/review of preliminary supporting documents and information received to identify quality and quantity of the suspected banking criminal offenses that have occurred;
2. Undertaking of meetings/clarification sessions/interviews with the Board of Directors, bank officers/staff or other parties in order to obtain information that will further clarify the position of the case;
3. Undertaking on the spot check of the object of the investigation, for example, through a direct visit to the customer’s address in order to find out the existence and validity of the information; and
4. Collecting additional supporting documents related to the indications of suspected banking criminal offenses.

In accordance with the formulation of banking criminal offences stipulated in Articles 46 up to 50A of Act No. 7 of 1992 concerning Banking as amended by Act No. 10 of 1998 or Article 59 up to 66 of Act No. 21 of 2008 concerning Sharia Banking, deviations from banking
regulations that have indications of banking criminal offenses are differentiated in their relation to:

1. Licenses, including among others accumulation of funds from the public in the form of deposits without the approval of OJK.

2. Bank secrecy, including among others:
   a. Enforcing bank or affiliated parties to provide explanations concerning deposit customers and their deposits without a written instruction or approval from OJK;
   b. Providing explanations that should be kept confidential; and
   c. Not providing explanations that should be provided for the purposes of taxes and bank receivable settlements, the interests of justice in criminal cases, as well as at the requests, approvals, or authorizations of deposit customers.

3. Bank supervision, including among others bank obligation to submit to OJK information and explanations on their businesses and obligations.

4. Bank business activities, including among others:
   a. False recording, deliberate elimination of or omission to make records in the accounting books, as well as obscuring, changing, hiding, deleting, or elimination records from accounting books;
   b. Requesting or accepting, approving or permitting to receive a reward for personal gain in carrying out bank operational activities;
   c. Neglecting to take measures necessary for ensuring bank’s compliance to the provisions of prevailing legislations; and
   d. Giving instruction for the execution or non-execution of actions that cause bank not performing steps necessary for ensuring bank’s compliance to the provisions of prevailing legislations.

When the investigation results find the existence of suspected banking criminal offences that have been made by affiliated parties and/or other parties, the cases are
further handed over to OJK’s work unit that performs the investigation task.

D. **Bank Investigation**

As mandated in Article 9 of Act No. 21 of 2011 concerning Otoritas Jasa Keuangan, in order to perform the supervision task, OJK has the authority to undertake investigations on FSIs, actors, and/or financial service support activities as referred to in legislations prevailing in the FSS.

OJK’s Investigators are Investigation Officers of the Republic of Indonesia’s Police and/or Civil Servant Officers who are given special authority as Investigators, who are employed at OJK in order to perform investigations of criminal offences within the FSS in accordance with Act No. 21 of 2011 concerning Otoritas Jasa Keuangan.

**OJK’s involvement in the Task Force for Investment Alert**

In order to create effective coordination between supervisory institutions in the field of public fund accumulation and investment management as well as with other law enforcement officers, regulators, supervisory institutions, and law enforcers have established Task Force for Investment Alert/Satgas Waspada Investasi (SWI) through Chairman of Capital Market and Financial Institution Supervisory Agency Decree Number Kep-208/BL/2007 dated 20 June 2007 for 2007 work period that is renewed annually. At the beginning of the formation of SWI, regulators and supervisory institutions as well as law enforcement officers who were its members were the Capital Market and Financial Institution Supervisory Agency, Ministry of Trade, the Police’s Criminal Investigation Agency, as well as Pusat Pelaporan dan Analisis Transaksi Keuangan (PPATK).

After the handover of the tasks and functions of the Capital Market and Financial Institution Supervisory Agency to OJK, Chairman of Capital Market and Financial Institution Supervisory Agency Decree Number Kep-208/BL/2007 dated 20 June 2007 was superseded by OJK’s
Board of Commissioners Decree Number 01/KDK.04/2013 dated 26 June 2013.

OJK’s Board of Commissioners Decree number 1/KDK.04/2013 dated 26 June 2013, last amended through OJK’s Board of Commissioners Decree number 01/KDK.01/2017 concerning Establishment of Task Force for Handling of Suspected Unlawful Actions in the Field of Public Fund Accumulation and Investment Management. Based on this OJK’s Board of Commissioners Decree, OJK is mandated to carry out the task as Chairman of SWI. OJK’s task as Chairman of SWI is to coordinate the prevention and handling of suspected unlawful actions in the field of public fund accumulation and investment management.

Establishment of SWI Regional Work Teams

The rise of activities in public fund accumulation and investment management without permits or misuses of licenses that have occurred in different regions in Indonesia necessitates the establishment of SWI Regional Work Teams in order to ensure optimum, efficient, and quick responses by SWI Regional Work Teams on complaints and/or reporting from the public. SWI Regional Work Teams have been established in order to increase the effectiveness of the operational level coordination of the technical implementation of the Memorandum of Understanding on Coordination of The Prevention and Handling of Suspected Unlawful Actions in the Field of Public Fund Accumulation and Investment Management by the heads of seven ministries and/or institutions. In order to achieve that objective, the SWI Regional Work Teams are tasked to inventory and analyze cases of suspected illegal investments as well as undertake coordination with related agencies in accordance with the fields, including the possibility of joint investigations and reporting to local police offices. The establishment of SWI Regional Work Teams is expected to give benefits not only to certain groups but also to FSI and the Public.
1. Benefits for FSI are:
   a. Revive public interest and trust in financial service products being offered; and
   b. Increase income, both from the side of third-party funds as well as the side of lending, and thus support economic growth.

2. Benefits for the public are:
   a. The public can more quickly obtain information related to activities of unlawful accumulation of public funds and investment management;
   b. Reduce the potential for losses due to less effective handling;
   c. Provide ease to the public in lodging reports and/or questions related to activities of fund accumulation and investment management without permits and have loss potential; and
   d. Avoidance from investment activities on unclear financial instruments.

Accessing and submitting information related to illegal investments can be made through:

- Website: waspadainvestasi.ojk.go.id
- Email: waspadainvestasi@ojk.go.id
- Telephone: 157

E. Integrated Supervision

Article 5 of Law of The Republic of Indonesia number 21 of 2011 concerning Otoritas Jasa Keuangan has mandated OJK to establish integrated regulatory and supervisory systems for all activities within the financial services sector, the implementations of which are undertaken through:

1. Establishment of work units that implement the tasks of integrated regulating, licensing, and supervision.

2. Integration of the regulation of all FSIs from the Banking, Capital Market, and NBFI sectors.

OJK has made, is making, and will continue to make efforts to integrate financial services sector’s regulations that are cross-cutting. The integrated regulation, is the regulation that applies to at least two financial sectors and sectoral regulation that have significant impacts on other financial sectors. All this
time, each type of financial service sectors has its own regulations. Some examples of regulations that have been integrated are OJK Regulation number 27/POJK.03/2016 concerning Fit and Proper Test For Main Parties In Financial Service Institutions and OJK Regulation number 13/POJK.03/2017 concerning Use of the Services of Public Accountants and Public Accounting Firms in Financial Service Activities.

3. Integration of the licensing entire financial services sector through one door.

OJK is currently making effort to integrate licensing, namely the licensing services through one door supported by an information system. One of the systems that have been developed by OJK to support integrated licensing is the Sistem Perizinan dan Registrasi Terintegrasi (SPRINT). Currently, several types of licensing managed using SPRINT are Bancassurance, Agen Penjual Efek Reksa Dana/Mutual Fund Security Sales Agent (APERD), Registration of Public Accountants and Public Accounting Firms, and Sharia Bonds.

4. Integration of the supervision of all FSI

Integrated supervision by OJK has started with the implementation of the supervisions of several FSIs that are incorporated into conglomerates. In this regard, OJK has issued three regulations related to integrated supervision of Financial Conglomerates, namely:

a. OJK Regulation no. 17/POJK.03/2014 concerning Implementation of Integrated Risk Management For Financial Conglomerates;

b. OJK Regulation no. 18/POJK.03/2014 concerning Implementation of Integrated Management for Financial Conglomerates;

c. OJK Regulation no. 26/POJK.03/2015 concerning Integrated Minimum Capital Adequacy Requirement for Financial Conglomerates

Financial Conglomerates

In accordance with OJK Regulation number 18/POJK.03/2014, a Financial Conglomerate (FC)
comprises a number of Financial Service Institution (FSI) which are incorporated into one group due to ownership and/or control linkages.
Based on the structures, FC can be divided into three types, as follows:
a. Vertical Group, if there is clearly a direct relationship between the parent company and the subsidiary company and both are FSI.
b. Horizontal Group, if there is no direct relationship between the FSI’s in one FC, however, these FSI’s are owned or controlled by the same party.
c. Mixed Group, if there are a business group structure that is a vertical group as well as a horizontal group within one FC. An illustration of the differences between the three types of FC is presented in the figure below.

Figure 2.1. Illustration of Type of Financial Conglomeration

To conduct supervisions of FC, OJK has developed surveillance methods that include the Know Your Financial Conglomerate (KYFC), Integrated Risk Rating (IRR), and Integrated Supervisory Plan (ISP) to document the supervisor’s understanding of any FC, the FC’s risks, and supervisory strategy for the FC at group-wide level.
In addition, OJK has also developed an Sistem Informasi Pengawasan Terintegrasi (SIPT) to assist supervisors in
analyzing and determining decisions regarding the supervision of any FC and issuing an Integrated Supervision Roadmap.

**Integrated Supervision Roadmap**

An Integrated Supervision Roadmap is developed with the objectives of providing policy direction, developing supervisory system/methodology, and strengthening the implementation of integrated supervision of FC, in line with the general policy for the financial services sector supervision, incorporated in the Indonesia’s Master Plan for Financial Services Sector 2015 – 2019. The 2015 – 2019 Integrated Supervision Roadmap covers three main aspects, namely:

a. Integrated Supervision Policy for FC;

b. Integrated Supervision System and Methodology for FC; and

c. Integrated Supervision Implementation for FC.

**F. Roadmap Banking Industry**

**Roadmap for Indonesian Banking Development**

Roadmap for Indonesian Banking Development/ Roadmap Pengembangan Perbankan Indonesia (RP2I) 2015 – 2019 covers development of Conventional Banks with the objective to ensure banking sector development runs in alignment with the vision of Indonesian
development, to create Indonesia that is independence, advanced, just, and prosperous. Directions of the Indonesian banking industry’s development and strengthening incorporated in RP21 are designed to anticipate challenges that will face the banking industry, both at the domestic as well as global scales. RP21 has also been designed to yet observe opportunities for the banking industry which are Indonesia’s potentials and advantages in line with the effort to promote the national economy in order to achieve high and sustainable economic growth.

1. Indonesian Banking Opportunities and Challenges
   Indonesia has a huge potential of growing and developing into an advance country in the future. This huge potential requires financing support from the whole FSS, including from the banking industry. In addition to this financing need on the domestic side, the potential for development comes from the region, namely implementation of the ASEAN Economic Community (AEC) and existence of Foreign Bank Branch Offices (FBBO) or banks with foreign ownerships that can create opportunities in supporting the national economic growth. Furthermore, in this era of rapid IT development, financial technology also has a significant role in the future development of the banking industry.

2. Policy Direction for Medium Term Banking Development 2015 – 2019
   Things that will be the focus of OJK in development of the banking industry in the medium term and that are expected to be able to respond to changes in the internal and external environments of the banking industry are among others:
   a. Optimizing the role of banks in the effort to support food security, energy and other priority sectors, financing of certain economic sectors, as well as development and implementation of sustainable funding principles;
   b. Enhancement of bank ownership structure in support of sustainable economic development.
This is in line with developments of governance and risk management as well as international standard implementation, from the sides of regulations, reporting, and supervision;

c. Implementation of risk based integrated supervision by: (i) undertaking supervision on conglomerate companies in order to early detect risks that can arise in the financial services system; (ii) developing and implementing risk based supervision mechanism; and (iii) stepping up investigations of professional compliance and compliance of the supporting institutions;

d. Strengthening of crisis management protocol and inter-institution coordination through enhancement of the mechanism for prevention and handling of crisis, enhancement of recovery and resolution plan, and enhancement of inter-institution coordination in relation to the handling of financial crisis;

e. Discussion concerning the reciprocity principle applicable for Indonesian banks to expand their service reach in the ASEAN region and mechanism for dispute settlement in anticipation of the emergence of cross-border disputes between ASEAN countries. In anticipation of the rise in competition against banks from other ASEAN countries, OJK has encouraged the national banks to enhance their capacities, in terms of capital as well as infrastructure, through the consolidation process in order to have stronger competitiveness in the ASEAN financial market;

f. Development of micro finance products and/or services in accordance with business needs so that banks can support the increase in business funds access for MSMA. In order to step up the capacities of banks, including sharia banks, in reaching communities, which up to this time have not had or lacked financial access, the inclusive finance initiative and Laku Pandai (branchless
g. Development of information technology infrastructure to make it more optimal and yet can still maintain security and reliability of the application services and data/information;

h. Strengthening the functions and role of RDB in supporting regional economies through: (i) strengthening the capacity and governance of RDB through RDB transformation program that has been initiated by OJK through the involvement of Rural Development Bank Association/Asosiasi Bank Pembangunan Daerah (Asbanda) and Ministry of Home Affairs that will be the reference in strengthening the capacity and governance of RDB, and (ii) enhancement of the owners’ commitment in supporting the role and capacity of RDB;

i. Enhancement of the role of sharia banks with expansions of businesses, network, sharia financial products, and fair playing field for SCB by developing regulations that encourage the growth of SCB in accordance with business characteristics and the industry’s level of preparedness; and

j. Strengthening the capital structure and institutional structure of RB through synergy with commercial banks and enhancement of the owners’ commitment to RB’ role in supporting regional economies. Furthermore, in the effort to enhance the quality of supervision over RB, OJK will implement risk based supervision.

Roadmap of Indonesian Sharia Banking

Roadmap of Indonesian Sharia Banking 2015 – 2019 is a plan for development of the Indonesian sharia banking sector for 2015 – 2019, which refers to MPSJKI and RP21 as well as aligned to the Masterplan of Indonesian Sharia Financial Architecture of the National Development Planning Agency. RPSI is expected to be able to be the reference for sharia banking stakeholders in developing the sharia banking
industry so that it is expected to increase its role and contribution in supporting the national economy and financial system stability as well as increasing/equalizing public welfare.

RPSI Vision for 2015 – 2019:
“Realizing sharia banking sector that gives significant contribution to sustainable economic growth, equitable development, and financial system stability as well as that has high competitiveness”.

This vision is translated into policy directions, work program, and implementation time plan, comprising seven policy directions

The seven policy directions for development of the sharia banking sector 2015 – 2019 are as follows:

1. Strengthening policy synergy between the authority and the government and other stakeholders, by:
   a. Promoting the establishment of RI’s National Committee for Sharia Finance Development;
   b. Stepping up cooperation between regulators and universities;
   c. Establishment center for researches and development of sharia banking and finance; and
   d. Initiating and developing sharia investment banks, particularly for the purpose of financing government projects.

2. Strengthening of the capital and business scale as well as improving efficiency, by:
   a. Enhancement of the policy on minimum core capital and BUKU classification of SCB;
   b. Promoting the establishment of sharia BUMN/BUMD (State-Owned Business Enterprises/Regional-Owned Business Enterprises) banks; and
   c. Optimizing the role and enhancing the commitment of Conventional Commercial Bank (CCB) to develop sharia banking services so that the share of sharia banking services can reach a minimum share above 10% of the parent CCB’ assets.
3. Improving the funding structure to support widening of the financing segment, by
   a. Optimizing the management of haj/wakaf/zakat/infaq/shodaqoh funds through sharia banking;
   b. Encouraging involvement of the sharia banks in management of the funds of central/regional governments and BUMN/BUMD; and
   c. Encouraging fund placements resulting from emissions of SUKUK (sharia securities) at sharia banks.

4. Improving the quality of services and product diversity, by:
   a. Enhancing the role of Sharia Banking Working Group/Working Group Perbankan Syariah (WGPS) in developing sharia banking products;
   b. Enhancing regulation concerning new products and activities; and
   c. Developing and enhancing sharia banking product standard (including documentations) in line with business characteristics.

5. Improving the quantity and quality of human resources and IT as well as other infrastructure, by:
   a. Development of sharia banking curriculum standard in universities;
   b. Mapping competency and competency standard for sharia bankers as well as review policy related to allocation of budget for bank human resource development; and
   c. Development of professional certification program as well as other human resource development programs for sharia banking in cooperation with medium-level and higher-level education institutions or banking consultants.

6. Enhancing public literacy and preference, by:
   a. Holding Pasar Rakyat Syariah (Sharia People’s Market); and
   b. Islamic Banking (iB) campaign program on sharia banking products and sharia banking strengthening of positioning, differentiation,
branding program.

7. Strengthening as well as harmonization of regulations and supervision, by:
   a. Enhancement of the policy related to Financing To Value (FTV);
   b. Development of Early Warning System (EWS) application for SCB and SBU; and
   c. Enhancement of regulations concerning the institutions of SCB and SBU and also guidelines for supervision and licensing.

Roadmap of Sustainable Finance

Sustainable development is a development concept that emphasizes on interrelationship of three main aspects, namely economic growth, social life sustainability, and environmental preservation in a sustainable manner. Sustainable development concept is adopted more by advance countries as well as developing countries, particularly after the ending of the Millennium Development Goals (MDGs) in 2015 and the start of the Sustainable Development Goals (SDGs) for implementation years of 2016 up to 2030. One of the triggering factors for the implementation of the Sustainable Development Goals is climate change, which is due to development processes. Therefore, implementation of the Sustainable Development Goals has become the main issue in each implementation of development, both medium-term as well as long-term, both at national as well as global scales.

For the purpose of facilitating financing/fund provision for sustainable development as well as adaptation to and mitigation of climate change, OJK with Ministry of Environment and Forestry has launched the Roadmap of Sustainable Finance/Roadmap Keuangan Berkelanjutan (RKB) on 5 December 2014. This roadmap contains presentations of work plan concerning the development of sustainable financing for all Financial Service Institution (FSI). The Launching of RKB has received appreciations, both from domestic side as well as international side. OJK is even the first authority within the FSS that issues a
Roadmap with a comprehensive scope because it regulates the whole FSS.

The background for the launching of RKB is the need for strategic and systematic measures in giving direction to FSS to take an active role and give a positive contribution to the sustainable development process (Long-Term Development Plan (RPJP) 2015-2024 and Medium-Term Development Plan (RPJMN) 2015-2019 which stand on 3P, namely Profit, People, and Planet. The RKB has the objective of translation the sustainable financing condition that the Financial Services Industry’s desires to achieve in relation to sustainable financing in Indonesia in the short-term, medium-term, and long-term (2015-2024).

Specifically for FSI, implementation of sustainable financing has the objectives: (i) to enhance the resilience and competitiveness of FSI so that they can have the capacity to growth and develop in a sustainable manner; (ii) to provide sources of funds required by the public, which refers to RPJP and RPJMN that have the characteristic of 3P; and (iii) to contribute to the national commitment on the problem of global warming through business activities that prevent/mitigate or even adapt to climate change towards a low-carbon economy that is competitive. The RKB states the limit on the definition of sustainable financing, which is overall support from Financial Services Industry for sustainable growth resulting from an alignment of economic, social, and environmental interests.

Sustainable Financing comprises four dimensions, namely: (i) to reach industry, social, and economic excellences for the purpose of reducing the threat of global warming and prevention of environmental and other social problems; (ii) to help shift the target to a low-carbon economy that is competitive; (iii) strategically promotes environmentally friendly investments in various business/economic sectors; and (iv) supports Indonesia’s Development Principles, namely 4 P (pro-growth, pro-jobs, pro-poor, and pro-environment) as stated in the RPJMN.

The RKB has four sustainable financing principles, namely:
(i) a risk management principle that integrates the environment protection and social aspects into the risk management of FSS; (ii) priority economic sector sustainable development principle that is inclusive by stepping up financing activities, particularly in agriculture sectors (agriculture, livestock husbandry, and maritime), infrastructure, industry, energy, and MSMBs; (iii) environmental and social governance and reporting principle, by running strong environmental governance and social practices, as well as transparency in the operational activities of the FSS and the customers of FSS; and (iv) enhancement of capacity and collaborative partnership principle by developing capacities of human resources, IT, and operational processes of each FSS.

In the implementation of RKB, three focus areas are expected, namely: (i) a step up of fund provisions from FSI for green projects; (ii) a step up of demand for green projects; and (iii) enhancement of supervision and coordination in the implementation of financing sustainability.

Meanwhile, for the long term, focus is given to the integration of risk management, good corporate governance, bank soundness level assessment, and development of integrated information system of sustainable financing.

Up to 2016, the RKB has been implemented through the implementation of various programs, such as among others:

1. Awareness program: the holdings of seminars, workshops (national and international), and the awarding of Sustainable Finance Award (SFA);
2. Capacity building: training of basic level environmental analysis for FSIs and supervisors of FSI, comprising 19 batches (+ 570 participants);
3. Guidelines: green lending model, containing among others: renewable energy and efficient energy, green building, volume 1.0 sustainable financing of organic agriculture of oil palm trees, guide for implementation of ESG and teaching learning module on
environmental analysis;

4. Coordination & collaboration: Sustainable Financing Coordination Forum has twice involved elements from the government, FSI, association, international institutions and Non-Government Organizations, sectoral coordination forums, participations in international forums (among others, G20, United Nation Environment Program)

5. Industry participation: pilot project entitled first movers on sustainable banking, participated by eight banks; and


**Figure 2.3. Roadmap of Sustainable Financing 2015 – 2024**

**Foundation for implementing SF:**
1. Policy on principles of SF
2. Policy on increase in SF portion
3. Policy on SF supervision

**Incentive for cooperation with other institutions:**
1. Fiscal Incentives
2. Non-Fiscal Incentives

**Incentives (within OJK’s control):**
1. Prudential Incentives
2. Information Hub
3. SF Award
4. Policy on Reporting

**Resilience strengthening:**
Strengthening of risk management in GCG related to the environment and social condition

2015 - 2019:
- Campaigns, training on living environment analysis, development of Green Projects, FSI access to Global Public Funds, Coordination on SF Policy

**G. ASEAN Banking Integration Framework**

ASEAN Banking Integration Framework (ABIF) is an ASEAN’s initiative with the objectives to create an integration mechanism and to accelerate banking integration through the provision of market access and operational flexibility in ASEAN countries by observing the fulfilment of prevailing prudential requirements in each of
the ASEAN countries. ABIF Guidelines has been agreed upon at the end of 2014. This document becomes the guide for ASEAN countries in undertaking bilateral agreements related to banks that will be present in the ASEAN banking market. The ABIF Guidelines stipulates integration principles that should be referred to as well as stages that should be followed in this integration process.

The best banks owned by the ASEAN countries or known with the terminology of Qualified ASEAN Bank (QAB) should meet the agreed requirements, namely:
1. Having good track record, as shown among others by a large market share;
2. Having adequate capital, and is financially sound;
3. Having good governance; and
4. Supported by the home country authority to be a QAB.

H. Basel Framework

1. Implementation of Basel Capital Framework
   Indonesia, as one of the members in the G-20 forum as well as other international forums, such as Financial Stability Board (FSB), Basel Committee on Banking Supervision (BCBS), has given its commitment in adopting recommendations produced by those forums. In line with that, and with the transfer of bank supervision function from BI to OJK, the implementation of OJK’s tasks in the future will not be separated from efforts to adopt those various recommendations. In the process of adopting the various above-mentioned recommendations, OJK will continue to adjust to the condition and development of the domestic banking industry.

2. Evolution of Basel Capital Framework
   Capital is one of the main focusses of bank supervisory authority in implementing the prudential principle. BCBS has issued one capital framework concept that has become an international standard, namely:
   a. In 1988, it issued the capital concept as well as the calculation of Risk Weighted Assets (RWA)
specifically for credit risk;

b. In 1996, it enhanced the capital component by adding Tier 3 as well as calculation of RWA for market risk;

c. In 2006, it issued the document entitled International Convergence on Capital Measurement and Capital Standard (A Revised Framework) or better known as Basel II;

d. In 2009, it issued Basel 2.5 recommendation, which covers the framework of RWA calculation for market risk by using the internal model, imposition of capital burden for securitization transactions, risk management aspect on compensation, concentration risk, reputation risk, and stress testing, valuation of all exposures recorded based on fair values, and disclosure on securitization;

e. In 2010, in response to the global financial crisis, BCBS issued a recommendation on enhancement of bank resilience, both at the micro level as well as the macro level, or better known as Basel III; and

f. In 2014, BCBS issued a document entitled “The Standardized Approach for Measuring Counterparty Credit Risk Exposures (SA-CCR)” as part of its effort to continuously enhance the CCR framework that has been issued previously.

3. Implementation of Basel II Framework in Indonesia

a. Basel II Framework (Pillar 1, Pillar 1, and Pillar 3) in Indonesia has been fully implemented since December 2012. A number of regulations related to Basel II implementation are illustrated as follows in figure 2.4.

b. Basel 2.5 Framework

For the purpose of the implementation of the remuneration framework in Indonesia as part of the Basel 2.5 framework, OJK has issued OJK Regulation No. 45/POJK.03/2015 concerning Implementation of Governance in Provision of Remunerations dated 23 December 2015. Furthermore, in January 2016, OJK has also made

**Figure 2.4. Implementation of Basel II in Indonesia**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PBI No.10/15/PBI/2008 (POJK No.36/POJK.03/2016)</td>
<td>PBI No.14/16/PBI/2012 (POJK No.36/POJK.03/2016)</td>
<td>PBI No.14/14/PBI/2012 (POJK No.32/POJK.03/2016)</td>
</tr>
<tr>
<td>Credit Risk</td>
<td>Market Risk</td>
<td>Operational Risk</td>
</tr>
<tr>
<td>Standardized Approach</td>
<td>Standardized Approach</td>
<td>Standardized Approach</td>
</tr>
<tr>
<td>Internal Rating Based Approach</td>
<td>Internal Model</td>
<td>Basic Indicator Approach</td>
</tr>
</tbody>
</table>

**c. Basel III Framework**

1) **Capital Framework**

On 12 December 2013, BI Regulation No.15/12/PBI/2013 was issued concerning Minimum Capital Adequacy Requirement for Commercial Banks, which stipulates:

(i) enhancement of capital quality through changes in component and requirement on capital instruments in accordance with the Basel III framework; (ii) the obligation to provide capital ratio, which comprises core capital ratio of no lower than 6% of RWA and ratio of main core capital of no lower than 4.5% of RWA; and (iii) the obligation to establish additional capital as the buffer above the obligation to provide minimum capital in accordance with the risk profile.

Implementation of the regulation on Basel III has been made in stages since 2014 to reach full implementation in 2019, with the implementation stages in figure 2.5.

2) **Liquidity Framework**

In addition to capital framework, Basel III also introduces two internationally applicable
standards for measuring certain liquidity minimum level that a bank needs to maintain as anticipation in facing crises, namely Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR constitutes a liquidity measurement with the objective of enhancing bank short term liquidity resilience by maintaining High Quality Liquid Asset (HQLA) in sufficient amount in order to cover net cash flow amounts for the next 30 days.

Meanwhile, NSFR constitutes a liquidity measurement with the purpose of enhancing bank long term liquidity resilience by requiring any bank to fund its activities with stable funds in amounts exceeding the required amounts during a period of one year stress. For the purpose of LCR implementation in Indonesia, OJK has issued OJK Regulation No.42/POJK.03/2015 concerning Obligation to Meet LCR in December 2015. In accordance with the prevailing OJK Regulation, the obligation to meet LCR is made in stages in line with the BCBS timeline, namely since 31 December 2015 with a minimum ratio of 70% up to 31 December 2018 with a ratio of 100% (each year, it is increased by 10%).
Meanwhile, in relation to NSFR that is in line with BCBS timeline, implementation of NSFR will start in 1 January 2018. Along this line, OJK has issued a regulation of NSFR on July 2017.

3) Leverage Framework
In an effort to limit the formation of excessive leverage in the banking system, BCBS has also introduced an additional ratio, namely leverage ratio, as one non-risk based approach to supplement the capital ratios in line with the risk profile that have been in effect. The purpose of the leverage ratio is as a backstop of capital ratios in line with risk profile to prevent the formation of excessive leverage to prevent the occurrence of worsening deleveraging process that can endanger the whole financial system and the economy. The minimum leverage ratio that has to be met is 3%, calculated by dividing core (tier 1) capital with bank total exposure (without weighted risk).

For the purpose of implementing leverage ratio, OJK has issued leverage ratio Consultative Paper in October 2014 to request responses from various related parties.

4) Finalization Basel III Reforms (Finalizing post-crisis reforms)
In December 2017, BCBS published the Basel III: Finalizing post-crisis reforms which are refinement of Basel III. The document revises a number of standards included in Pillar 1 (minimum capital requirement), namely: Credit Risk Standard Approach, Internal Ratings-Based (IRB) Approach, Credit Valuation Adjustment (CVA), Operational Risk, Market Risk, Leverage Ratio and Output Floor. The Basel III Reforms are expected to be implemented by no later than January 1, 2022.

4. Regulatory Consistency Assessment Program
At a meeting held at the end of November 2016 in
Santiago, Chile, the BCBS has made a decision concerning results of the Regulatory Consistency Assessment Program (RCAP) on Indonesian banking sector’s regulations. Indonesia’s Liquidity Coverage Ratio (LCR) regulations are assessed as Compliant (C) and its capital framework is assessed as Largely Compliant (LC). RCAP has been conducted on all BCBS member countries (28 jurisdictions), including Indonesia. RCAP is an assessment process exercised by the BCBS to see whether the banking regulations issued by a country’s authority are consistent with the international banking standards issued by the BCBS. Indonesia has gained those RCAP’s results with not so easy struggle. Preparation for the RCAP had been made since 2014, starting with a self-assessment that was carried out to identify gaps between the Basel framework and the prevailing regulations. Result of the self-assessment was then submitted to the BCBS for the BCBS’s reference when RCAP assessors conducted their assessment. Based on their assessment result, Indonesia must revamp 10 regulations, to make them comply with international banking standards. The grades that the RCAP has awarded to Indonesia render Indonesia’s banking regulations at the same level with those of other BCBS member countries, including for RCAP result for Indonesia’s Capital framework, which has received the same grade as that of the United States, which is an even higher grade than the one given to the European Union.

I. Transformation of Regional Development Banks
The Regional Development Bank (RDB) Transformation Program was launched in 26 May 2016 by the President of Republic Indonesia with the vision of creating RDB to become banks with high competitiveness, strong, as well as having significant contribution to the economic growth and equalization at the regions in a sustainable manner. This vision is going to be realized through three goals, namely: (i) enhancement of the competitiveness of RDB;
(ii) strengthening institutional resilience; and (iii) enhancement of the contribution of RDB to regional economies. These are illustrated in the figure 2.6.

In order to achieve this vision, the RDB Transformation Program will be implemented through three stages/phases, namely: (i) Foundation Building; (ii) Growth Acceleration; and (iii) Market Leadership In the implementation of the program, each RDB will enter each stage and set business goals and targets in line with the capacity and preparedness of each RDB, as depicted in the following figure:

The RDB Transformation Program will be implemented through three stages as follows:
1. **Phase I: Foundation Building**
   The goal is to build the supporting processes (Governance, Risk & Compliance) and strong capital, supplemented with quality human resources, work culture, and reliable information system through
synergy of the RDB Group as the basis for the growth in phase two.

2. Phase II: Growth Acceleration
The goal is to grow rapidly in order to achieve the third position based on total assets by strengthening core business processes, entering the commercial credit segment, strengthening syndication loans, and intensifying synergy in RDG Group and between RDB as well as strengthening of the “ONE-RDB” corporate culture.

3. Phase III: Market Leadership
The goal is to build the position as market leader with targeted asset size of number 1 or number 2 as well as respective core and supporting capabilities through the RDB Group transformation into a Holding Corporation. In this phase, RDB shall be the market leader with significant contribution to the regional economies.

J. Credit Reporting System
The Credit Reporting System (CRS) that is going to be implemented in Indonesia is a dual system concept so that in Indonesia in the future there will be a Public Credit Registry (PCR) managed by OJK and a number of Private Credit Bureau (PCB) managed by private parties. This concept will synergize the role of OJK as the authority in charge of collecting data from FSI and the power of private sector in developing innovations that will produce various information products and services required by FSI. The dual CRS concept in Indonesia is described as follows in figure 2.8.

On the side of PCR, at present OJK is developing SLIK, which is a system that will replace SID that is currently managed by BI. SLIK will be useful for supporting OJK’s tasks as well as assisting the public and FSS’s actors in making decisions on financing and investments. In the future, SLIK will be further developed to support financing and investments in the capital market and NBFI, as well as provide market intelligence.
On the side of PCB, a PCB in Indonesia is known with the name of Lembaga Pengelola Informasi Perkreditan (LPIP) regulated in BI Regulation Number 15/1/PBI/2013 concerning LPIP and BI Circular Letter Number 15/49/DPKL dated 5 December 2013 concerning LPIP. A LPIP is an institution or agency that collects and processes credit data and other data to produce value-added credit information such as credit profile and credit scoring, customer monitoring, credit alerts, and Small Medium Enterprise (SME) grading. A LPIP can undertake cooperation with financial and non-financial institutions in order to widen and enrich the coverage of credit data and other data.

K. Banking Information System for the Purpose Of Supporting Bank Supervision Task

1. Bank Information System

Bank Information System/Sistem Informasi Perbankan (SIP) is an information system used by bank supervisors in analyzing a bank’s condition, performing assessment of Bank Soundness Level by using Risk Based Bank Rating (RBBR), speeding up access to information on bank’s financial condition, enhancing security and integrity of banking data and
information. SIP is developed for the purpose of supporting bank supervision task through quality information, by providing the following functions:

a. as a business tool while at the same time a medium for rapid information presentation up to the strategic level;

b. providing information at macro level, individual bank level, as well as other information related to bank business environment; and

c. integrating data which is currently scattered in different systems.

2. Management Information System of BPR Supervision

As an effort to improve the quality of BPR supervision, the development of BPR information system leads to a more focused supervisory system in terms of off-site and on site monitoring to the conditions faced by BPR. Implementation of the Early Warning System (EWS) of the RB is conducted to support monitoring of off-site BPR conditions, and then to complete periodic BPR health rating assessments. The result of EWS analysis is intended to be used in determining the focus of inspection conducted by supervisors so that it is expected to improve the effectiveness and efficiency of OJK supervision on site. In addition, the development of Enterprise Data Warehouse (EDW) BPR is expected to be an effective means to monitor and present information on the condition of the BPR as a whole as a matter of determining the policy to be taken.

3. Aplikasi Pelaporan Online (APOLO)

APOLO is a web-based application that serves to provide services to Financial Institutions in fulfilling the obligation of online reporting. APOLO can be accessed by internal or external users of OJK through the website https://apolo.ojk.go.id.

APOLO facilitated reporting as follows in table 2.3.
<table>
<thead>
<tr>
<th>Type of Report</th>
<th>Related Regulations</th>
<th>FSI’s that are Obliged To Report</th>
<th>Helpdesk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity Coverage Ratio (LCR) Reporting</td>
<td>OJK Regulation number 42/POJK.03/2015 concerning Requirement To Meet Liquidity Coverage Ratio For Commercial Banks</td>
<td>- Commercial Banks BUKU 3 - Commercial Banks BUKU 4 - Foreign Banks</td>
<td>Supervisor Bank</td>
</tr>
<tr>
<td>Tax Amnesty Reporting (TaTy)</td>
<td>Law of Republic Indonesia number 11 of 2016 concerning Tax Amnesty</td>
<td>Gateway, which comprises 21 Banks, 18 Investment Managers, and 19 Security Brokers-Dealers</td>
<td>Supervisor Bank</td>
</tr>
<tr>
<td>Reporting of Rural Bank/Sharia Rural Bank’s Business Plans (RB/SRB)</td>
<td>OJK Regulation number 37/POJK.03/2016 concerning Rural Bank and Sharia Rural Bank’s Business Plans</td>
<td>All RBs/SRBs</td>
<td>Helpdesk. <a href="mailto:pelaporanbus@ojk.go.id">pelaporanbus@ojk.go.id</a></td>
</tr>
<tr>
<td>- OJK Regulation Number 21/POJK.03/2014 concerning Minimum Capital Adequacy Requirement for Sharia Commercial Banks (SCB)</td>
<td>- OJK Circular Letter Number 13/SEOJK.03/2015 concerning Calculation of Operational RBWA; - OJK Circular Letter Number 34/SEOJK.03/2015 concerning Calculation of Credit RBWA; and - OJK Circular Letter Number 35/SEOJK.03/2015 concerning Calculation of Market RBWA</td>
<td>All SCBs</td>
<td>Helpdesk. <a href="mailto:pelaporanbus@ojk.go.id">pelaporanbus@ojk.go.id</a></td>
</tr>
</tbody>
</table>
4. Sistem Layanan Informasi Keuangan

Sistem Layanan Informasi Keuangan (SLIK) is an information system managed by OJK to support the implementation of supervisory duties and information service in finance. In accordance with the provisions of legislation, OJK is authorized to regulate and develop an expanded inter-bank information system involving other institutions in the financial sector. Therefore, in order to carry out its duties and functions, OJK deems it necessary to develop a new system to support credit access information through SLIK.

SLIK can be used to facilitate the process of providing funds, the implementation of risk management, the assessment of the quality of debtors, and improve the discipline of the financial industry.

**Figure 2.9. Roadmap Implementation of SLIK**

SLIK starts full operation as of 1 January 2018, replacing the role of SID. Starting from this date, provision of debtor information to the public has transferred from BI to OJK. The public will be able to obtain this service by coming directly to the OJK Head Office (OJK Contact Center) and OJK Regional Office/OJK Office (PELAKU outlets).
Figure 2.10. Mechanism of Request for Debtor Information through SLIK

Figure 2.11. Scope of Debtor Information That the Public Can Obtain

Operation of the SLIK application refers to OJK Regulation number 18/POJK.03/2017 concerning Reporting and Requesting Debtor Information through the Sistem Layanan Informasi Keuangan (SLIK). Description of the regulation is presented in Chapter IV.

L. **Customer Education and Protection**

Article 4 of Act Number 21 of 2011 concerning Otoritas Jasa Keuangan states that one of the tasks of OJK is to provide protection for the Consumers and/or the public. In relation to Consumer protection, this Act states that:

1. A Financial Service Institution is an institution that conducts activities in the Banking, Capital Market, Insurance, Pension Fund, Financing Institution sectors...
and other Financial Service Institutions.

2. Consumers are parties who place their funds and/or utilize services provided at FSIs, covering among others customers at Banks, investors at Capital Market, police holders at the Insurance sector, as well as participants in Pensiun Funds, based on legislations applicable in the Financial Services Sector.

For the purpose of implementing Consumer protection, OJK has issued OJK Regulation Number 1/POJK.07/2013 concerning Financial Services Sector Consumer Protection, which states that Financial Services Business Actors (FSI) are Commercial Banks, Rural Banks, Security Companies, Investment Advisors, Custodian Banks, Pensiun Funds, Insurance Companies, Re-insurance Companies, Financing Institutions, Pawn Companies, and Guarantee Companies, covering those that conduct business activities in conventional manner as well as based on sharia principles. This regulation stipulates the obligation of FSI to provide financial education to the Consumers and/or public so that they can better understand the basic features, rights, obligations prior to and when utilizing financial products / services. This can reduce the potential for Consumer losses due to lack of understanding/lack of clarity/erroneous information given by FSI. In addition, with regards Consumer protection, FSIs are obliged to apply transparency principle, fair treatment, reliability, Consumer data/information confidentiality and security, and complaint handling, as well as settlements of disputes with the consumers in a simple, quick, and financially affordable manner.

In line with the implementation of the POJK Consumer Protection for Financial Services Sector, OJK formulated the Financial Consumer Protection Strategy (SPKK) for the period of 2013-2027 which has a vision of "creating market discipline in Indonesia's financial services sector, which will support financial system stability and national economic growth sustainability in Indonesia "and has a mission of" increasing consumer and community trust in every activity in the financial services sector, providing opportunities and opportunities for
financial services institutions to develop fairly, efficiently and transparently, and realizing consumers who have an understanding of the rights and obligations in associated with financial services institutions ".

In realizing the vision and mission above, SPKK period 2013-2027 consists of 4 (four) pillars, namely: Infrastructure pillars, Regulation pillars, Market conduct pillars, and Pilar Education & Communications.

![Figure 2.12. Pillars of SPKK period 2013 – 2027](image)

OJK has two approaches in performing its function in the field of FSS consumer education and protection, namely:

1. Preventive actions

   Preventive actions are carried out in the forms of regulation and implementation in the field of consumer education and protection. Education, which is preventive in nature, is required as the initial step for enhancing financial literacy of the public so that they have a good understanding of financial service products and services (including basic features, benefits and risks of financial service products and / or services, as well as the rights and obligations of financial consumers).

   Preventive activities can be conducted through various media and ways, namely:
   a. provision of financial information and education, whether directly (face to face), through public service advertisements, and through online media (sikapiuangmu.ojk.go.id, and social media);
   b. consumer and/or public complaint service through OJK’s Consumer Services;
   c. market intelligence for preventing potential losses.
on the part of the consumers;
d. self-assessments submitted by FSI;
e. Thematic Surveillance; and
f. suspension of activities or other actions.
In addition to providing education and conveying information, OJK should also ensure that products and services made available by FSI meet the consumer protection principle.

OJK Circular Letter No. 12/SEOJK.07/2014 concerning Provision of Information For The Purpose of The Marketing of Financial Service Products and/or Services governs the offering of FSIs’ products/services through personal communication devices (telephone, text message service, email, and equivalent devices) or direct visits that are often felt to be annoying by the Consumers and/or public. The following are points that FSIs should comply with in giving offers of products/services through personal communication devices, namely:

a. communication may only be made on Monday through Saturday, but not on national holidays, from 08.00 – 18.00 local time, except at the agreements or requests of candidate Consumers or Consumers.
b. inform the name of the FSI and explain first the purpose and objective before offering the FSI’s products and/or services; and
c. in the case the FSI is using a personal communication device in the form of telephone:
   1) the FSI should make available and use a voice recording device;
   2) when required as evidence of the existence of a legal action undertaken by a Consumer and the FSI at Court and/or when required by the Supervision Department, a printed copy and/or letter signed by the Consumer should be presented; and
   3) the voice recording device that records the Consumer’s approval presented in printed form can be treated as the equivalent of a
written approval statement signed by the Consumer.

**Figure 2.13. Consumer and Public Protection**

2. Repressive Actions

Repressive actions are undertaken in the forms of complaint settlements, facilitations for dispute settlements, suspensions of activities or other actions, and legal defenses to protect consumers. OJK undertakes preventive and repressive actions that are directed at financial inclusion and financial system stability. Repressive actions are executed through:

a. facilitations for complaint settlements; and
b. legal defenses for Consumers (by instructing FSI to settle Consumers’ complaints).

3. Integrated Consumer Services OJK

Establishment of Integrated Consumer Services is one of the implementation forms of the mandate of the Act concerning OJK in its effort to provide education and protection for the Consumers and public against violations of the Act and regulations applicable in the FSS under the authority of OJK. There are several ways to access these services,
namely:
Telephone : 157
E-Mail : konsumen@ojk.go.id
Facsimile : (021) 386-6032
Website : http://konsumen.ojk.go.id
Mobile apps : Android iOS
SikapiUangmu (QR Code)

In order to provide consistent services, meet applicable requirements, achieve Customer/community satisfaction, and make continuous improvement, OJK’s Customer Service has implemented and achieved ISO 9001: 2015 certification since November 24, 2016.

There are three types of OJK Consumer Services that can be obtained by the community, namely:

a. become a place for Consumers to convey information;
b. a place for the financial Consumer and the community to ask;
c. becomes a place for Consumers to submit complaints relating to products and / or services made and offered by PUJK under the authority of OJK. Especially for the submission of complaints, the required documents are as follows:
   1) the evidence has submitted a complaint to the relevant PUJK and / or the answer;
   2) complete identity;
   3) description of the complaint; and
   4) supporting documents (if any).

Consumers and/or communities are free of charge to obtain all the above services.

In addition, Customer Services OJK have been supported by the Integrated Consumer Service System that has the following features:

a. Trackable

   With a trackable system, Consumers are able at any time to know about the progress of
complaints that have been lodged at OJK.

b. Traceable
With a traceable system, FSI are able to know the resolution process of complaints or disputes that cannot be settled between the FSI and their Consumers, for which the Consumers have requested settlement facilitation from the OJK.

Figure 2.14. Infographics of OJK’s Customer Services

4. Internal Dispute Resolution Standard (IDR Standard)
OJK expects that each FSI can implement IDR standard to realize excellent consumer protection. Broadly, an IDR standard has three important benefits for a FSI, namely: encouraging the FSI to have a guide / basis for developing a minimum Standard Operating Procedure (SOP) for the implementation of consumer services; providing certainly in business process / mechanism related to IDR; and encouraging good settlements of complaints on the sides of the FSI and Consumers.
Implementation of IDR Standard should be based on nine principles:

a. Visibility
   FSI publicizes the procedure for lodging Complaints to Consumers, public, and other stakeholders.

b. Accessibility
   A FSI has a facility for Complaint Handling service that is easily accessible for the Consumers.

c. Responsive
   A FSI immediately handles, follows up and settles Consumer Complaints as well as provides clear information on the statuses and results of Complaint Handling to the Consumers in accordance with prevailing procedures and regulations.

d. Fair Treatment
   A FSI handles each Consumer Complaint in a fair, objective, and impartial manner.

e. Cost of Complaint Service
   A FSI does not impose charges on Complaint Handling, except for other services requested by the Consumer outside those already made available by the FSI, which amounts are communicated to and approved by the Consumer and are verifiable.

f. Data Confidentiality
   A FSI saves guard the confidentiality of information concerning Consumers who have lodged complaints against any party whosoever, except when required by OJK for the purpose of settling complaints, required by legislations and/or with the approvals of the Consumers.

g. Focus on Consumer
   A FSI, in a balanced manner, pays attention to the interests of Consumers through commitment and implementation in Complaint settlements without neglecting the rights and obligations of both parties.

h. Accountability
A FSI has clear functions, structures, systems, rights and obligations, responsibilities, and authorities, both on the parts of the FSI as well as the Consumers, in relation to implementation, reporting, as well as decision making by FSI on Complaint Handling.

i. Continuous Improvements
A FSI undertakes continuous improvements on Complaint Handling process in order to enhance the quality of products and / or services.

In implementing complaint handling, a FSI is obliged to perform follow ups and settlements of complaints within no later than 20 working days, with a time extension of no later than the next 20 working days by giving written notices to the Consumers prior to the expirations of the set time periods (under certain conditions).

Figure 2.15. Infographics of IDR Standard

<table>
<thead>
<tr>
<th>EFFICIENCY &amp; EFFECTIVENESS</th>
<th>FAIRNESS &amp; INDEPENDENCE</th>
<th>ACCESSIBILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENERAL REQUIREMENTS</td>
<td>services for &amp; settlement of complaints by FSBAs</td>
<td></td>
</tr>
<tr>
<td>Establishment of a work unit/ FUNCTION for the handling of complaints which is accountable to the board of directors</td>
<td></td>
<td>Owing INTERNAL CONTROL system that performs internal AUDIT function</td>
</tr>
<tr>
<td>Provision of supporting TRAINING for employees at minimum 1 time during their service periods</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

MECHANISM for complaint services & settlement at FBSAs work unit

- SHOULD own PROCEDURE and SERVICES for complaint settlement
- provision of ACCESS to complaint monitoring by OJK

SETTLEMENT FORM on complaint services & settlement by FBSA to OJK

- DISCREPANCY in agreement
- MATERIAL loss

REPORTING to OJK

- reported PHYSICALLY and ELECTRONICALLY
- submitted every 3 MONTHS on the 10th
- Impose of SANCTION of payment penalty on FBSA that is late in submitting/does not submit report

- Disagree
- Agree

FOLLOW UP on complaints
- provision of INFORMATION on STATUS of complaints

PROHIBITION to impose charges
5. Alternative Dispute Resolution Bodies

Dispute settlements through Alternative Dispute Resolution Bodies/Lembaga Alternatif Penyelesaian Sengketa (LAPS) are made when dispute settlements between consumers and FSI, known as IDR, do not reach agreements. LAPS provides dispute settlement services that can be accessed easily, are quick, inexpensive, as well as performed by human resources who are competent and understand the FSS.

The banking sector already has the Indonesian Banking Alternative Dispute Settlement Bodies/Lembaga Alternatif Penyelesaian Sengketa Perbankan Indonesia (LAPSPI), which has started to operate at the beginning of 2016.

Figure 2.16. Infographics of LAPS
Types of services provided by LAPSPI:

a. Mediation
   A method for settling disputes through a third party (mediator) to help the disputants to reach an agreement.

b. Adjudication
   A method for settling disputes through a third party (adjudicator) which will make a decision on a dispute that arises between the referred parties. An adjudication decision is binding on the parties concerned if the consumer accepts it. In the event the consumer rejects the decision, the consumer may seek another resolution effort.

c. Arbitration
   A method for settling a civil dispute of court based on an arbitration agreement made in writing by the disputants. An arbitration decision is final and binding on the parties.

6. Market Conduct
   For the purpose of creating and developing the FSS and enhancing Consumer protection, OJK undertakes Consumer protection monitoring and analysis by using the Self Assessment by FSI method and Thematic Surveillance. The Self Assessment is one of the techniques for Consumer protection monitoring by the filling out of a working paper that describes the condition of Consumer protection implementation performed by a FSI through the implementation of:

   a. provision of education;
   b. conveyance of information for the purpose of the marketing of financial service products and/or services;
   c. standard agreements between Consumers and FSI;
   d. confidentiality and security of Consumer personal data and/or information;
   e. consumer complaint services and settlements by FSI; and
   f. services for the purpose of dispute settlements.
Based on results of the Self Assessments, OJK conducts analyses that are verified against the complaint reports, market intelligence results, mystery shopping, and supervision database.

Results of thematic surveillance analyses, in which results of initial analyses are compared with results of implementation of the thematic surveillance activities, through Consumer protection policy as well as market intelligence results, are further discussed to come up with recommendations for the bank supervision work unit to perform supervisory actions (imposition of sanctions).

**Tips on Consumer Protection**

1. First, review the profile of FSI that offers the products or services.
2. Review whether the products or services offered have received approvals or are listed at the OJK.
3. Read carefully each information or contract related to the products or services offered by the FSI and request explanations when required, in order to have clear understanding of all matters prior to buying or signing any contract / agreement.
4. FSI is obliged to give a copy of contract / agreement to the Consumer.
5. Be cautious of any attractive offer or advertisement that
promises a much higher return than the common practice, and immediately lodge a report or complaint to OJK whenever a problem arises in relation to a product or service already used by the Consumer.

### Tips on Secured Internet Banking

1. Protect the computer with anti-virus, spyware filter, and e-mail filter softwares as well as firewall program.
2. Immediately contact and report to the FSI whenever there is something suspicious.
3. Do not answer any e-mail that requests for personal information. A FSI will never request personal information such as Personal Identification Number (PIN) or password.
4. Ensure that you are accessing the correct website address of the FSI’s internet banking. Do not click on a website address that is deliberately misspelled or is similar with the genuine address.

### Tips on Investment Characteristics To Cautious Of

1. Offering extremely high rate of return.
2. Guarantee of free risk investment.
3. Giving huge bonuses and cash backs for members who can recruit other members.
4. Misuses of the testimonies of community leaders for giving effects of endorsement and trust.
5. Promises of ease in withdrawals of assets already invested and security guarantee on assets already invested (ease, flexibility, and security).
6. Buy back guarantee without write down.
7. Trading Business License/Surat Izin Usaha Perdagangan (SIUP) is not a license for accumulating public fund and managing investments.
The public trusts and is interested to become members and place funds at PT Bata Bersaudara.

In 2 years period, funds amounting to Rp800billion from 7000 people were accumulated.

PT Bata Bersaudara did not have a permit from OJK for accumulating funds from the public. Members lodged a complaint on this problem to Law Enforcement Officer.
CHAPTER 3

OJK's POLICY DIRECTION
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### A. OJK 2018 Policy Direction

Starting from 2018 onward, OJK assesses that the Financial Services Sector faces a number of challenges, covering among others:

1. The rising need for infrastructure development financing, considering the limitation of state’s budget.
2. The yet low competitiveness of Indonesia’s financial services sector relative to those of other countries in the region.
3. The existence of financial technology that develops rapidly and requires quick and appropriate policies from regulators.
4. There is a high expectation that the financial services sector becomes the solution to the efforts of lowering the level of inequality and stepping up public welfare through financial literacy and provision of financial access to the wide public.
5. Offers of illegal investments that are wide spreading and causing losses to the public by utilizing low public financial literacy level.
6. Challenges coming from the external side, such as normalization of monetary policies in advanced countries and world geopolitical challenges.

To face those challenges in 2018, OJK has set six Strategic Policies that are cross-sectoral, strategic, and have wide impacts on the stakeholders, namely:

1. Support infrastructure financing and priority sectors as well as deepen the financial market, by among others:
   - Increasing access for domestic investors as well as involvement of financial service institutions in the regions through the issuance of the policy on Regional Security Company establishment.
   - Boosting the widening and utilization of more varied financing instruments, covering among others perpetual bonds, green bonds, and regional bonds, including implementation of collective investment contract scheme.
2. Enhance financial education and literacy, by among others:
   - Developing financial education models that are on
target and measurable by utilizing various delivery channels.

- Optimizing the role of the Task Force for Investment Alert in taking action against illegal investments.

3. Optimize supervision of the financial services industry, by among others:
   - Optimizing the role of technology in integrated supervision in the banking, capital market, and non-bank financial industry sectors by applying international standards that have been adjusted to Indonesian condition.
   - Stepping up efficiency through more intensive use of information technology.

4. Promote innovations in technology products (fintech) in the financial services sector that are advantageous to the public, by among others:
   - Issuing the policy for Operators of Digital Financial Services, covering the mechanism for registration and licensing, as well as application of regulatory sandbox and policy on crowdfunding.
   - Directing financial service institutions to step up synergy with fintech companies or establish fintech business lines.

5. Step up efficiency and competitiveness of the financial services industry, by among others:
   - Promoting synergy between banks and other financial institutions in infrastructure project financing.
   - Intensifying the application of technology in developing products and services.

6. Encourage the improvement and equity of community welfare, by among others:
   - Developing People Business Credit Program/Kredit Usaha Rakyat (KUR) Clusters, which involve the channeling of KUR accompanied by mentoring and marketing of products by core companies, namely State-Owned Business Enterprises (BUMN), Regional Government-Owned Business Enterprises (BUMD), Village-
Owned Business Enterprises (BUMDes)/Multiple Village-Owned Business Enterprises (BUMADes) as well as the private sector companies.

- Optimizing the function of the Regional Finance Accelerated Access Team/Tim Percepatan Akses Keuangan Daerah (TPAKD) Team to empower low-income communities in the regions.

B. Development of OJK’s Policies in Banking Sector in 2017

Financial Inclusion and Public Welfare
Various efforts have been made by OJK in facilitating the level of inequality to decrease and the welfare of the wide public to improve, which are in the forms of:

a. Widening the Laku Pandai (branchless banking) program, with the total number of customers reaching 11.8 million and involvement of 428,852 agents as well as total savings balance reaching Rp1,26 trillion.

b. Promotion of KUR financing to be more directed to the productive sectors. Total realized financing channeled through the KUR program until December 2017 reached Rp96,7 trillion or 90.7% of the 2017 target.

c. Initiation of the National KUR Cluster program for several leading commodities in order to accelerate the distribution of KUR in some banks which business models are not in the retail segment.

d. Optimizing the role of the TPAKD which currently comprises 61 TPKAD at the provincial, regency as well as city levels.

Consumer Education and Protection
OJK also seeks to increase public awareness related to consumer education and protection in the financial services sector, in the forms of:

a. Publication of results of the 2016 Survei Nasional dan Inklusi Keuangan/SNLIK (National and Financial Inclusion Survey) for all sectors, which shows financial literacy index of 29.66% and financial inclusion index of 67.82%. These figures increase compared to results
of the 2013 SNLIK for all sectors, namely financial literacy index of 21.84% and financial inclusion index of 59.74%.

The financial literacy and inclusion indexes in the banking sector are presented in the following table.

<table>
<thead>
<tr>
<th>Type of Index</th>
<th>2013’s Index</th>
<th>2016’s Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Literation</td>
<td>21.8%</td>
<td>28.9%</td>
</tr>
<tr>
<td>Inclusion</td>
<td>57.3%</td>
<td>63.6%</td>
</tr>
</tbody>
</table>

b. In order to improve the financial literacy and inclusion indexes mentioned above, OJK has enacted OJK Regulation Number 76/POJK.07/2016 concerning Enhancement of Financial Literacy and Inclusion on December 28, 2017. To further detail the OJK Regulation, OJK has issued OJK Circular Letter Number 30/SEOJK.07/2017 concerning Financial Literacy and OJK Circular Letter Number 31/SEOJK.07/2017 concerning Financial Inclusion with the hope that financial literacy and inclusion enhancement can be materialized as mandated in the Presidential Decree Number 82 of 2016 through a synergy among the Financial Service Institutions.

c. Financial Consumer Protection Strategy (Strategi Perlindungan Konsumen Keuangan/SPKK) for the period of 2013 – 2027, was launched on May 18, 2017 and covers three phases, namely Building Phase from 2013 to 2017, Development Phase from 2018 - 2022, and Acceleration Phase from 2023 - 2027 period. In its implementation, the SPKK refers to four pillars, namely (1) Infrastructure; (2) Consumer protection regulation; (3) Supervision of market conduct; and (4) Education and communication.

d. Boosting the Taskforce for Investment Alert to be more active in reviewing the various investment offers that are wide spreading amongst in the public and are actively giving public announcements/appeals on entities that do not have business licenses and have
the potential of causing losses to the public (due to unreasonable offers of profit). Throughout the year 2017, there are 80 entities which business activities have been discontinued because of the potential to cause losses to the public and there are 12 entities that have been processed by law (list of the entities is presented in the appendix).

e. Revitalization of OJK Consumer Services in investigations and there have been four anticipation of the surge of services related to SLIK and demand for SLIK Debtor Information (I-Deb) effective as of 2 January 2018.

Investigation of Banking Cases
Throughout the year 2017, OJK has conducted banking cases that have been tried and have obtained permanent legal decisions, as contained in the appendix.

Sistem Layanan Informasi Keuangan
OJK launched the Sistem Layanan Informasi Keuangan (SLIK) application in April 2017. After launching, the SLIK application is used by the industry in parallel with the Debtor Information System application, as a preparation step for FSIs in fully implementing the Sistem Layanan Informasi Keuangan (replacing the Debtor Information System) starting January 2018. SLIK is one of the most important infrastructures in the financial services sector for mitigating risks, particularly credit risk, for the purpose of reducing the level of non-performing loan risk. In addition, the existence of SLIK is also able to support the expansion of credit/financing access to the public.

As of January 1, 2018, there are 1,629 Financial Services Institutions that have become SLIK Reporting Entities consisting of Commercial Banks, RBs, SRBs, Financing Institutions, other FSIs (except Micro Finance Institutions), as well as savings and loan cooperatives. The number of SLIK Reporting Entities will continue to rise considering the scope of the Obligatory Reporting Entities on SLIK will be wider, namely:
1. RBs, SRBs, and financing companies are obliged to
become SLIK reporting entities no later than December 31, 2018.

2. Venture capital companies, infrastructure financing companies, and pawn companies are obliged to become SLIK reporting entities no later than December 31, 2022.

3. Micro finance institutions, peer-to-peer lending companies, and institutions that are not FSIs (such as Savings and Loan Cooperatives) may become SLIK reporting entities when they have met the requirements and obtained approvals from OJK.

Figure 3.1. Projection of Development of SLIK Obligatory Reporting Entities

Explanation: “Total” comprises the total number of all FSIs. Meanwhile, “SLIK” comprises the total number of SLIK Reporting Entities. Data at the position as of 1 January 2018 represents actual numbers. The projected number starts as of 31 December 2018.

**Online Reporting of Bank Liquidity Coverage Ratio**

In order to create a banking system that is sound as well as able to grow and compete nationally and internationally, banks need to have adequate liquidity to anticipate the occurrence of crisis conditions. To maintain the adequacy of bank liquidity, it is necessary to manage the quantity of high quality financial assets in anticipation of net cash outflow and in accordance with international standards.

In this regard, OJK issues OJK Regulation Number 42 / POJK.03 / 2015 concerning Requirement To Meet Liquidity Coverage Ratio For Commercial Banks. In this regulation, it is stipulated that banks are required to submit Monthly LCR Report online through the OJK reporting system. These Monthly LCR Reports will be used by OJK to measure the fulfillment of the minimum level of liquidity that must be maintained by banks in anticipating the
occurrence of crisis conditions.
Following up this OJK Regulation, in 2017, OJK launched the use of APOLO application as the online LCR reporting system. Users of this application are from OJK’s external side (reporting banks) as well as OJK’s internal side. Reporting banks may access the module for uploading reports, downloading reports, and administrative users from the banks as Officers-in-Charge. Meanwhile, for OJK’s internal side, this application is used in supervision and monitoring of reports from banks.
Reporting banks have begun submitting LCR reports online on March 15, 2017 for data on February 2017 position. The Monthly LCR reports submitted by the banks comprise quantitative reports (with set calculation format) as well as qualitative reports (containing banks’ analyses of the LCR calculations and/or values) using a template set in the OJK Regulation on LCR.

**RB and SRB Business Plan Online Reporting**
The business plans of RBs and SRBs is one of the most important references for OJK in developing an optimal and effective RB and SRB supervision plans. Early preparation of business plans will enable smooth operational activities of RBs and SRBs from the beginning of the year.
With the enactment of OJK Regulation Number 37/POJK.03/2016 concerning Business Plans of Rural Banks and Sharia Rural Banks, OJK requires all RBs and SRBs to submit their Business Plans online.
Following up on this OJK Regulation, in 2017, OJK launched the use of APOLO application as an online reporting system for the business plans of RBs and SRBs. The online Business Plan submission was first performed on December 15, 2017. Four types of reporting modules that should be reported online by RBs and SRBs are Business Plan Submission, Business Plan Adjustment, Business Plan Amendment, and Business Plan Realization.
Figure 3.2. Information on Online Submission of RB and SRB Business Plans

**ONLINE SUBMISSION OF RURAL BANK & SHARIA RURAL BANK BUSINESS PLANS**

OJK Regulation No.37/POJK.03/2016

A written document that describes the plans for RB & SRB development and business activities within a certain timeframe and strategies for realizing the plans according to the targets and time lines set.

**RB & SRB annual work plan becomes RB & SRB business plan**

Annual Work Plan

Annual Work Plan Reports are to be reported by RBs & SRBs to OJK in hardcopies

RB & SRB Business Plan

Starting 1 November 2017, RB & SRB BPs are reported online to OJK with the internet through the Aplikasi Pelaporan Online OJK (APOLO)

**Deadline and Scope of Report**

**Submission Deadline**

To be submitted no later than 15th December before the start of the Business Plan year based on data of the month of October position.

RBs & SRBs should submit business plan realization reports each semester, no later than 1 month after the end of the relevant semester.

**Scope of Report**

- Executive summary
- Business strategies and policies
- Financial report projection
- Target ratios and financial accounts
- Fund accumulation plan
- Fund channeling plan
- Capital plan
- Plan for information technology and human resource organization developments
- Plan for implementation of new business activities
- Plan for changes in office networks
- and others
**Regional Cooperation in the Framework of ABIF**

In June 2017, OJK has explored cooperation with the Central Bank of the Philippines through a Letter of Intent, which is the first step before a bilateral agreement. Thus, until now there have been three countries that are interested to explore cooperation with Indonesia, namely Singapore, Thailand and Philippines. There is a country that already has a bilateral agreement with Indonesia, namely Malaysia, through the signing of a bilateral agreement between OJK and Bank Negara Malaysia in 2016.

**Issuances of Regulation concerning Banking Regulating**

Throughout 2017, OJK has issued 23 OJK Regulations in the field of banking. The explanations of the OJK Regulations and the banking stipulations that are still valid until 2017 are presented in the Chapter IV of Indonesia Banking Booklet 2018.

**Special Policy for Victims of Natural Disaster**

OJK has issued a special policy regarding determination of the quality of credits in areas in Indonesia that suffer from the impacts of natural disasters. This policy aims to let banks apply relaxation on determination of the quality of overall credits (including restructured credits) on debtors that are affected by the impacts of natural disasters or projects located in natural disaster-distressed areas. The special policy is temporary but is expected to accelerate the recovery of post-natural disaster banking performance and economic condition.

<table>
<thead>
<tr>
<th>Area</th>
<th>Province</th>
<th>Natural disaster experienced</th>
<th>Validity period of the policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regency of Pidie Jaya</td>
<td>Nangroe Aceh Darussalam</td>
<td>Earthquakes</td>
<td>3 years, since January 20th 2017</td>
</tr>
<tr>
<td>City of Bima</td>
<td>Nusa Tenggara Barat</td>
<td>Floods</td>
<td>3 years, since January 20th 2017</td>
</tr>
</tbody>
</table>
This special policy refers to OJK Regulation Number 45/POJK.03/2017 concerning Special Treatment on Bank Credits or Financings for Certain Areas in Indonesia Affected by Natural Disasters.

**Development of Sharia Banking**

Throughout the year 2017, several activities have been carried out, among others, as follows:

1. **Review of SRB Risk Governance and Management.**
   This study aims to identify the implementation of the SRB management principles, formulate aspects that need to be developed and the impacts that arise in the implementation of SRB organization management in accordance with the SRB business volume.

2. **Study of Establishment of Jakarta International Islamic Financial Center (JIIFC).** The purpose of the study is to provide recommendations on the shape or design of an international sharia financial center that best suits Indonesia's conditions.

3. **Sharia Economic and Financial Research Forum/Forum Riset Ekonomi dan Keuangan Syariah (FREKS) XVI OJK and Indonesian Islamic Economy Expert Association/Ikatan Ahli Ekonomi Islam Indonesia (IAEI) have conducted FREKS XVI activities with the theme "Towards a New Paradigm for Development of Indonesia's Sharia Finance Industry: Strengthening the Role of Government".**

Financing Channeling to Organic Farming Sector has been conducted. Each member of the Working Group, especially from sharia banking, submitted a report on the results of the financing distribution plans to the organic farming sector.

5. 2017 iB Research Grant Program. The main objectives of this program are to accelerate implementation of the research agenda, as well as to support researches on sharia banking by students and researchers from the external side of OJK. Results of the researches are expected to be useful in supporting the formulation of OJK’s policies in the fields of sharia banking and finance.

6. Study of Establishment of APEX IT Companies for SRBs. The study aims to map a joint scheme/model of information technology development for SRBs in an umbrella organization for an APEX IT Company and identify strategic issues related to that joint information technology development.

7. Study of The Impacts of Multi licenses for SRBs. The application of “one fits for all” for SRBs is deemed to be no longer appropriate, since there are considerable asset and capital gaps in the SRB industry. Therefore, the nature of “one fits for all” needs to be reviewed so that each SRB can have business activities that are in accordance with its capacity.

8. Study of Sharia Business Unit Leveraging. This study aims to support the development of the sharia banking industry in relation to the obligation of SBUs to spin off in 2023.

9. Study of Sharia Banking Sharing Platform. This study aims to support development of the sharia banking industry in relation to the obligation of SBUs to spin off in 2023.

10. Preparation of 2016 Sharia Finance Development Report/Laporan Perkembangan Keuangan Syariah 2016 (LPKS 2016). The purpose of this report is to ensure that all stakeholders, both within and outside the country, obtain complete information concerning the development, policy implementation, and
development direction of sharia finance during 2016. LPKS 2016 has been translated into English in order to broaden the publication concerning information on sharia finance development to international stakeholders.

11. Cooperation with Islamic Financial Services Board (IFSB). As one of the IFSB members, OJK has submitted responses related to two IFSB surveys, namely Survey on Technical Note on Financial Inclusion and Islamic Finance and Survey Questionnaires on The Implementation of The IFSB Standards.

12. Project on the establishment of World Islamic Investment Bank (WIIB). WIIB is a project concerning the establishment of a sharia-based infrastructure financing institution initiated by the IDB.


14. Preparation of the Indonesian National Qualification Framework/Kerangka Kualifikasi Nasional Indonesia (KKNI) for SRBs. In October 2017, Focus Group Discussion (FGD) and Workshop on Formulation of KKNI of SRBs were held with the industries, Ministry of Manpower, ASBISINDO (Indonesian Sharia Bank Association) and Professional Certification Institution – Certif. In November 2017, there was an external verification of SRB KKNI with the Ministry of Manpower followed by SRB KKNI Convention in December 2017.

15. Preparation of Sharia Rural Bank (SRB) Certification Module. As a follow up of SKKNI and KKNI that have been prepared, it is necessary to formulate the SRB
certification module based on SRB SKKNI and SRB KKNL. Considering the emergence of several special sharia banking Professional Certification Institutions, it was agreed that preparation of the certification module should be carried out jointly so that the module issued refers to the same standards and there is no competition between Professional Certification Institutions.

**Development of Sharia Banking Products and Education**

In this regard, a number of activities have been undertaken, among others:

a. Sharia Finance Fair Expo was participated by sharia banks, sharia capital market companies (securities, asset management, and others), and non-bank sharia companies (insurance, pension funds, financing, and others). At the expo, OJK conducted sharia finance education through fun games to visitors followed by a survey of public level understanding of sharia finance products. Throughout the year 2017, Sharia Finance Fair Expo has been held three times, namely in Semarang, Cirebon, and Bogor.

b. iB Vaganza Expo was participated by participants from sharia banking industry. During this event, OJK undertook cooperation with the Sharia Banking Marketing Communication Forum (iB Marcom) in holding the iB Vaganza Expo at five cities, namely Kediri, Medan, Mataram, Banjarmasin, and Depok.

c. As an effort to develop the sharia banking industry, OJK has organized a Sharia Banking Communication Forum (Forum Komunikasi Perbankan Syariah/FKPS) which is a forum for communication between OJK leaders as regulator and heads of national sharia banking industry. The purpose of this meeting is to discuss the strategic issues of sharia banking.

d. Discussion of fatwas in the Forum of Sharia Banking Working Group/Working Group Perbankan Syariah (WGPS) Forum on 31 October 2017 consisting of representatives of Otoritas Jasa Keuangan (OJK), the National Sharia Board of the Indonesian Council of
Ulama (DSN-MUI), the Religious Court of the Supreme Court of the Republic of Indonesia (Badilag MA RI), Sharia Accounting Standard Board of Indonesian Accountant Association (DSAS IAI), and sharia banking industry concerning the draft fatwas of DSN MUI for development of sharia banking products.

e. Implementation of Sharia Banking/Finance Halaqah Workshop for Da’I (moslem preachers), Ulamas (moslem scholars), Mosque Management, and Pesantren, at pondok pesantren (moslem religious boarding schools) in five cities, namely Cirebon, Banyuwangi, Semarang, Mataram and Medan.

f. Implementation of Sharia Banking Workshop and Training of Trainer activities for Teachers, Teaching Staff, and Post-Graduate Students.

g. Acting as a resource person in various discussions and education forums for literacy and dissemination of sharia banking and finance.

Transformation of Regional Development Bank

As follow ups to the launch of Regional Development Bank/Bank Pembangunan Daerah (RDB) Transformation Program in the year 2017, activities that have been conducted are among others:

1. Dissemination of the Regional Development Bank Transformation Program to Governors, members of local parliaments, Bupati (Heads of Regencies) or Walikota (Heads of Municipalities), as well as Commissioners, Directors, Heads, Branch Heads of RDBs in three cities, namely Bintan, Palangkaraya, and Surabaya. Objectives of the activity were to step up the understanding of and gain support from not only members of the management and all shareholders of RDBs, but also stakeholders, namely members of local parliaments at the province / regency / municipality levels, so that the vision of RDBs to become banks that are competitive, strong and contributive so that regional development can be achieved.

2. Implementation kick-off cooperation between Sparkassenstiftung Fuer Internationale Kooepration
(SBFIC of Germany) and Association of Regional Development Banks for development of micro business credit. Technical assistance cooperation from SBFIC of Germany aims to support the RDB transformation program in regard development of earning credit products in the effort to enhance RDBs' role as development agents of regional economy.

3. Implementation of Workshop of RDB Transformation Program Implementation, which aims to identify constraints and challenges to the RDB transformation program implementation. This workshop was participated by members of RDB transformation program Project Management Office (PMO), members of work streams below the PMO, and members of RDB transformation program Change Management Offices (CMOs) from all over Indonesia. At this workshop, the PMO and each work stream gave a presentation concerning constraints and challenges in the implementation of the RDB transformation program.
CHAPTER 4

BANKING REGULATIONS
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In accordance with the Republic of Indonesia Act number 21 of 2011 concerning Otoritas Jasa Keuangan, OJK is authorized to regulate or stipulate provisions concerning business aspects and activities of the banking industry. These provisions are in the form of Regulations of Otoritas Jasa Keuangan and Circular Letters of Otoritas Jasa Keuangan. In addition, OJK also has the authority to convert the stipulations issued from institutions such as the Ministry of Finance, Capital Market and Financial Institution Supervisory Agency, and Bank Indonesia (BI).

Throughout 2017, OJK has issued 23 OJK regulations in the banking field. Out of these 23 OJK regulations, there are 14 OJK Regulations which are conversions from Bank Indonesia Regulations, Bank Indonesia Circular Letters, and Decree of the Board of Directors of Bank Indonesia. The list of the 23 OJK regulations is as follows:

Table 4.1. List of OJK Regulations issued during the year 2017

<table>
<thead>
<tr>
<th>No.</th>
<th>OJK Regulation</th>
<th>Concerning</th>
<th>Date</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>13/POJK.03/2017</td>
<td>Use of the Services of Public Accountants and Public Accounting Firms in Financial Service Activities</td>
<td>March 27th 2017</td>
<td>New Regulation</td>
</tr>
<tr>
<td>2</td>
<td>14/POJK.03/2017</td>
<td>Recovery Plans for Systemic Banks</td>
<td>April 4th 2017</td>
<td>New Regulation</td>
</tr>
<tr>
<td>3</td>
<td>15/POJK.03/2017</td>
<td>Determination of the Status and Follow Up of Commercial Bank Supervision</td>
<td>April 4th 2017</td>
<td>New Regulation</td>
</tr>
<tr>
<td>4</td>
<td>16/POJK.03/2017</td>
<td>Bridge Bank</td>
<td>April 4th 2017</td>
<td>New Regulation</td>
</tr>
<tr>
<td>5</td>
<td>18/POJK.03/2017</td>
<td>Reporting and Requesting of Debtor Information through Sistem Layanan Informasi Keuangan</td>
<td>April 26th 2017</td>
<td>New Regulation</td>
</tr>
<tr>
<td>6</td>
<td>19/POJK.03/2017</td>
<td>Determination of the Status and Follow Up of the Supervision of Rural Banks and Sharia Rural Banks</td>
<td>May 10th 2017</td>
<td>New Regulation</td>
</tr>
<tr>
<td>7</td>
<td>36/POJK.03/2017</td>
<td>Prudential Principles in Capital Participation Activities</td>
<td>July 12th 2017</td>
<td>Conversion of Regulation</td>
</tr>
<tr>
<td>No.</td>
<td>OJK Regulation</td>
<td>Concerning</td>
<td>Date</td>
<td>Notes</td>
</tr>
<tr>
<td>-----</td>
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</tr>
<tr>
<td>8</td>
<td>37/POJK.03/2017</td>
<td>Utilization of Foreign Workers and Transfer of Knowledge Program in Banking Sector</td>
<td>July 12th 2017</td>
<td>Conversion of Regulation</td>
</tr>
<tr>
<td>9</td>
<td>38/POJK.03/2017</td>
<td>Implementation of Risk Management at Consolidation level at Banks that Conduct Control Over Subsidiary Companies</td>
<td>July 12th 2017</td>
<td>Conversion of Regulation</td>
</tr>
<tr>
<td>10</td>
<td>39/POJK.03/2017</td>
<td>Single Ownership in Indonesian Banking</td>
<td>July 12th 2017</td>
<td>Conversion of Regulation</td>
</tr>
<tr>
<td>11</td>
<td>40/POJK.03/2017</td>
<td>Credits or Financing to Security Companies and Credits or Financing with Share Collaterals</td>
<td>July 12th 2017</td>
<td>Conversion of Regulation</td>
</tr>
<tr>
<td>12</td>
<td>41/POJK.03/2017</td>
<td>Requirements and Procedure for Bank Examination</td>
<td>July 12th 2017</td>
<td>Conversion of Regulation</td>
</tr>
<tr>
<td>13</td>
<td>42/POJK.03/2017</td>
<td>Obligation concerning the Preparation and Implementation of Bank Credit or Financing Policy for Commercial Banks</td>
<td>July 12th 2017</td>
<td>Conversion of Regulation</td>
</tr>
<tr>
<td>14</td>
<td>43/POJK.03/2017</td>
<td>Follow ups of the Implementation of Bank Supervision</td>
<td>July 12th 2017</td>
<td>Conversion of Regulation</td>
</tr>
<tr>
<td>15</td>
<td>44/POJK.03/2017</td>
<td>Restrictions on the Provisions of Credits or Financing by Commercial Banks for Land Procurement and/or Land Preparation</td>
<td>July 12th 2017</td>
<td>Conversion of Regulation</td>
</tr>
<tr>
<td>16</td>
<td>45/POJK.03/2017</td>
<td>Special Treatments on Bank Credits or Financing for Certain Areas in Indonesia Affected by Natural Disasters</td>
<td>July 12th 2017</td>
<td>Conversion of Regulation</td>
</tr>
<tr>
<td>17</td>
<td>46/POJK.03/2017</td>
<td>Implementation of Commercial Bank Compliance Function</td>
<td>July 12th 2017</td>
<td>Conversion of Regulation</td>
</tr>
<tr>
<td>18</td>
<td>47/POJK.03/2017</td>
<td>Obligation concerning the Provision of Funds for Education and Trainings for the Development of Human Resources of Rural Banks and Sharia Rural Banks</td>
<td>July 12th 2017</td>
<td>Conversion of Regulation</td>
</tr>
<tr>
<td>No.</td>
<td>OJK Regulation</td>
<td>Concerning</td>
<td>Date</td>
<td>Notes</td>
</tr>
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**Definition of Conversion of Regulation**

Conversion of regulation is an amendment of any Government Regulation concerning the financial services sector and any legislation issued by the Ministry of Finance, Capital Market and Financial Institution Supervisory Agency, and Bank Indonesia (BI) to become an OJK Regulation and/or OJK Circular Letter. Conversions of regulations are only undertaken when there are no changes in the substances in the previous regulations. Changes in substances are changes concerning the core principles of the previous regulations. Meanwhile, changes that are not substantive are among others:

1. Replacement of the Act on BI to Act on OJK as the legal basis in regulations in the “In View Of” section.
2. Adjustment of the provisions concerning references by referring to the current provisions, for example, the previous regulation refers to the BI Regulation on Risk Management but the new one refers to the OJK Regulation concerning Risk Management.
3. Change in the phrase “Bank Indonesia” to “Otoritas Jasa
4. Elimination of clauses that contain obligations which deadlines for implementation have passed, such as an revocation of report or action plan submission obligation which was enforced when a BI Board of Directors’ Decree, BI Regulation, BI Circular Letter first became effective.

5. Adjustments and/or additions to a terminology/stipulation in the context of harmonization with the current stipulation or financial accounting standard, such as the replacement of the term "Foreign Bank Branch Office" with a "branch office of a bank domiciled abroad" and the use of the word "aset" is used to replace the word "aktiva".

6. Adjustments and/or additions to the closing section to revoke the stipulation being converted and/or other provisions recommended to be revoked because the substances is irrelevant.

Implementation of the conversions of stipulations shall be conducted in order to follow up on the mandate of the Act concerning Otoritas Jasa Keuangan, which states that as of December 31, 2013, the functions, duties and authorities concerning the regulating and supervision of financial service activities in the Banking sector are transferred from BI to OJK. In addition, the conversions of BI stipulations into OJK stipulations also aim to reinforce OJK authority over such banking regulating. From 2016 up to 2017, 27 OJK Regulations have been issued as the results of conversions, with the list of OJK Regulations presented in the appendix.

Summary of banking regulations (OJK and BI Regulations) that are yet valid.

A. Regulations on Bank Institutional Arrangement, Management, and Ownership

1. Establishment of Banks
   - Banks can only be established and undertake business activities with licenses from OJK.
   a. Commercial Banks (CB)
Paid-up capital should be no less than Rp3 trillion and can only be established and/or owned by:
1) Indonesian citizens and/or Indonesian legal entities; or
2) Indonesian citizens and/or Indonesian legal entities with foreign citizens and/or foreign legal entities in a partnership.

b. Sharia Commercial Banks (SCB)
Paid-up capital should be no less than Rp1 trillion and can only be established and/or owned by:
1) Indonesian citizens and/or Indonesian legal entities; or
2) Indonesian citizens and/or Indonesian legal entities with foreign citizens and/or foreign legal entities in a partnership.

c. Rural Bank/Bank Perkreditan Rakyat (RB)
Paid-up capital should be no less than:
1) Zone 1, Rp4 billion;
2) Zone 2, Rp8 billion;
3) Zone 3, Rp6 billion; and
4) Zone 4, Rp4 billion.
Can only be established and/or owned by:
1) Indonesian citizens;
2) Indonesian legal entities with all Indonesian citizen owners;
3) Regional Governments; or
4) Two or more of those parties referred to in numbers 1), 2), and 3)

d. Sharia Rural Banks/Bank Pembiayaan Rakyat Syariah (SRB)
Minimum paid-up capital is differentiated into four zones as follows:
1) Zone 1, Rp12 billion;
2) Zone 2, Rp7 billion;
3) Zone 3, Rp5 billion; and
4) Zone 4, Rp3.5 billion.
The zones follow the zone arrangement for conventional RB. SRB can only be established and/or owned by:
1) Indonesian citizens and/or Indonesian legal
entities with all Indonesian citizen owners;
2) Regional Governments; or
3) Two or more of those parties referred to in numbers 1) and 2)

e. Opening of Foreign Bank Branch Office
Opening of a Foreign Bank Branch Office can only be undertaken when the bank meets the following requirements:
1) Having good rating and reputation;
2) Owning total assets that is included among 200 world largest; and
3) Placing business fund in rupiah currency or foreign currencies in the value of no less than the equivalent of Rp3 trillion.

f. Opening of Foreign Bank Representative Office
Opening of a Foreign Bank Representative Office can only be undertaken when the total assets of the bank that is going to open a Representative Office is included among 300 world largest.
A Representative Office is only allowed to conduct activities such as among others:
1) Provides explanations to third parties concerning the requirements and procedure for undertaking relationships with the overseas Head Office (HO)/Branch Office (BO);
2) Assists overseas HO or BO in monitoring credit collaterals located in Indonesia;
3) Acts as the authorized party in contacting agencies/institutions for the interests of its overseas HO or BO;
4) Acts as supervisor of projects that are partly or fully financed by its overseas HO or BO;
5) Undertakes promotional activities for the purpose of introducing the bank;
6) Provides information concerning Indonesian trades, economy, and finance to overseas parties or vice versa; and
7) Assists Indonesian exporters to obtain market access overseas through international networks owned by the Representative Office
or vice versa.

g. Transformation of Village Credit Agency/Badan Kredit Desa (BKD) that Is Given The Status As Rural Bank (RB)

Currently there are many BKD with business licenses from the Minister of Finance which are given the status of RB. However, with BKD’s unique operational characteristic that is not the same as RB in general, BKD that are given the status as RB are exempted from each legislation applicable on RB. With the effectiveness of OJK Regulations, BKD that are given the status of RB are not exempted from any regulation generally applicable on RB.

Under this regulation, BKD are obliged to meet regulations applicable on RB, among others those related to the institution, implementation of RB accounting standard, prudential principle, reporting, and financial transparency no later than 31 December 2019. This plan for fulfilling stipulations applicable on RB should be incorporated into an action plan and submitted to OJK no later than 31 December 2016.

For the purpose of fulfilling stipulations applicable on RB, a number of BKD may undertake merging or amalgamation. Any BKD that cannot fulfil stipulations applicable on RB may choose to change its business activities into Micro Finance Institution/Lembaga Keuangan Mikro (LKM) or its business entity into Village-Owned Business Enterprise (BUMDesa)/Village-Owned Business Unit (unit usaha BUMDesa).

OJK has the authority to revoke the business license of BKD that acts as RB, in the cases of:

1) BKD that undertake merging or conversion;

2) Any BKD which cannot meet the stipulations applicable on RB or cannot implement the action plan no later than 31 December 2019;

3) Any BKD which is not actively in operation (does not submit information on its being active or quarterly financial report during the
first one year after the OJK Regulation comes into effect);
4) Any BKD that has changed its business activities or its business entity into LKM or BUMDesa; and
5) Any BKD that submits a request for revocation of Business License at its own initiative

h. Transformation of Conventional Micro Finance Institution into Rural Bank and Sharia Micro Finance Institution into Sharia Rural Bank

Based on the mandate of Act Number 1 of 2013 concerning Micro Finance Institution, a LKM may expand the reach of its financial services to the public outside its regency/city by transforming into a bank. A LKM should transform into a RB or a Sharia LKM (SLKM) should transform into a SRB when:

1) Conducting business activities outside the regency/city of the domicile of the LKM or SLKM; or
2) The LKM or SLKM already owns:
   a. Equity amounting to at least five times of the required minimum paid-up capital for RB or SRB in accordance with the provisions of legislations; and
   b. Third party funds in the form of deposits accumulated in the last one year amounting to at least 25 times of the required minimum paid-up capital for RB or SRB in accordance with the provisions of legislations.

Any LKM/SLKM that has already obtained a business license from OJK and owns core capital of Rp6 billion may submit a request for transformation at its own initiative to OJK by meeting the set requirements. Further on, OJK may give approval/rejection no later than 40 working days since the request and complete required documents are received.
2. **Bank Ownership**

   Fund sources used for the purpose of ownership of a CB/SCB and RB/SRB are prohibited to originate:
   
a. from loans or financing facilities in whatever forms from a bank and/or other parties in Indonesia; and/or

   b. from and for the purpose of money laundering.

   Specifically in the case of RB, fund sources may originate from Regional Revenue and Expenditure Budget/Anggaran Pendapatan dan Belanja Daerah (APBD).

   Parties that may become bank owners should meet the following requirements:
   
a. Has good character and morals, which are reflected among others by an attitude of compliance to prevailing regulations, not having been sentenced due to proven case of crime within the last 20 years prior to nomination;

   b. Has a commitment for complying with prevailing legislations;

   c. Has a commitment for the development of sound banking operation; and in respect of a sharia bank, has a high commitment for the development of sound and resilient sharia bank;

   d. Not being listed in the list of parties not recommended to be the main parties, for example List of Failed Persons in Banking Field; and

   e. Has a commitment for not doing and/or repeating certain actions in the case of a candidate members of board of commissioners or candidate members of board of directors who has previously received the predicate of Having Failed in the Fit and Proper Test and has undergone sanctions set by the OJK.

   Changes in bank ownership follows the procedure for changes in bank ownership as stipulated in prevailing legislations.

3. **Sole Ownership in Banks in Indonesia**

   The principle in the sole ownership policy is that each party can only become a Controlling Shareholder in one CB in Indonesia. In the event a party has become
the Controlling Shareholder in more than one banks or have purchased shares of another bank that causes the party concerned to become the Controlling Shareholder in more than one bank, the party concerned should meet the regulation concerning Sole Ownership. The fulfilment of the regulation concerning Sole Ownership should be performed through:

a. merger or consolidation of banks under its control; 
b. establishment of a parent company in the banking field; or 
c. establishment of a holding function.

The sole ownership policy is exempted for:

a. a Controlling Shareholder in two banks, where each bank respectively conducts business activities under different principle, namely in conventional manner and based on Sharia Principles; and 
b. a Controlling Shareholder in two banks, where one of the banks is a joint venture bank.

A Controlling Shareholder, which chooses the merging/consolidation option in order to meet the ownership structure that is in line with this regulation, will receive incentives in the forms of:

a. temporary easing in the fulfilment of Statutory Reserve Requirement/Giro Wajib Minimum (GWM); 
b. time extension for settlement of exceedances against the Maximum Legal Lending Limit/Batas Maksimum Pemberian Kredit (BMPK) 
c. ease in opening branch offices; and/or 
d. temporary easing in the implementation of GCG.

The legal entity form of a parent company in the banking field shall be Limited Liability Company established in Indonesia in line with the provisions of prevailing legislations in Indonesia. The holding function may only be undertaken by a Controlling Shareholder that is a bank of Indonesia legal entity or Republic of Indonesia’s Government Agency. The parent company in the banking field and the holding function should provide strategic directions
and consolidate financial reports of banks that are its subsidiary companies.

In accordance with the regulation concerning Fit and Proper Test, in the case of a Controlling Shareholder that is a legal entity, the definition of Controlling Shareholder applies up to the ultimate owner and controller of that legal entity (ultimate shareholders). Along this line, the definition of having undertaken control, both directly as well as indirectly, shall also refer to the regulation concerning Fit and Proper Test.

4. Share Ownership of Commercial Bank

With the issuance of OJK Regulation Number 56/POJK.03/2016, ownership of Central Government of banks can be performed directly as well as through legal entities that are directly controlled by the Central Government. An adjustment has been made in anticipation of and to align with the plan to form a holding company for BUMN banks with PT Danareksa as the holding company, so that the limitation on Central Government ownership in banks does not change.

For the purpose of administering ownership structure, OJK has decided the maximum limit on share ownership at banks based on categories of shareholders and relationships between shareholders as follows:

a. A bank financial institution and non-bank financial institution legal entity may own 40% of bank capital;

b. A non-financial institution legal entity may own 30% of bank capital; and

c. An individual shareholder may own 20% of bank capital. Maximum limit for individual share ownership in a SCB is 25% of bank capital.

Maximum limit for share ownership does not apply on Central Government and institution that has the function of handling and/or rescuing banks. Relationships between bank shareholders are based on:

a. The existence of ownership relationship;
b. The existence of family relationship up to the second degree; and/or
c. The existence of cooperation or similar action in order to achieve joint objective in controlling the bank (acting in concert) with or without a written agreement so that jointly all parties have the right option or other rights for owning bank shares.

In the case the candidate Controlling Shareholder is a Foreign Citizen and/or a legal entity domiciling overseas, the candidate Controlling shareholder should meet the following requirements:

a. has a commitment to support the development of Indonesia’s economy through the bank owned;
b. has obtained a recommendation from the original country’s supervisory authority, for a financial institution legal entity; and
c. has a rating of of no less than:
   1) 1 level (notch) above the lowest investment rating, for a bank financial institution legal entity;
   2) 2 levels (notches) above the lowest investment rating, for a non-bank financial institution legal entity; or
   3) 3 levels (notches) above the lowest investment rating, for a non-financial institution legal entity.

A bank financial institution legal entity may own bank shares of more than 40% of bank capital as long as it has the approval of OJK and meets the set requirements.

An individual and/or legal entity may purchase the shares of a CB directly as well as through the bourse. Number of share ownership by a Foreign Citizen/foreign legal entity shall be no more than 99% of the concerned bank’s total shares. Any shareholder, which owns bank shares more than the maximum limit of ownership, should make an adjustment to the maximum limit of share ownership based on the results of soundness level assessment and/or GCG assessment for the assessment position of end of December 2013.
Shareholders of any bank with the assessment ratings for Soundness Level and/or GCG of 3, 4 or 5 for the assessment position of December 2013, should make an adjustment to the maximum limit of share ownership no later than 5 years since 1 January 2014. Shareholders of any bank with the assessment ratings for Soundness Level and GCG of 1 or 2 for assessment position of December 2013 may still keep the shares amounting to the share percentage it owns. There is an obligation to make adjustment to ownership limit if the bank suffers a lowering in Soundness and/or GCG level to ratings 3, 4, or 5 during three consecutive assessment periods or at the shareholder own initiative to sell the shares it owns.

Implementation of the maximum limit of bank share ownership applicable for Regional Governments and parent companies is stipulated as follows:

a. maximum limit of share ownership for Regional Governments which are going to establish or acquire a bank is 30% for each Regional Government; and

b. a parent company in the banking field that is established to meet the requirement concerning sole ownership is exempted from maximum limit of share ownership. However, if later on the parent company is going to acquire another bank, the maximum limit of share ownership applicable shall be the highest ownership limit of the shareholder category of the parent company in the banking field.

Special Requirement on CB Share Ownership:

a. Bank Share Ownership of More Than 40%

1) The requirement for being able to own bank shares of more than 40% is among others having bank Soundness level assessment with composite rating of 1 or 2 or equivalent for bank financial institution that domiciles overseas, meeting the Minimum Capital Adequacy Requirement in accordance with the risk profile, and core capital (tier 1) of no less
2) Assessment position used for the above three requirements is assessment position of no less than the last one year.

b. Requirement on Investment Rating
1) 1 level (notch) above the lowest investment rating, for a bank financial institution legal entity;
2) 2 levels (notches) above the lowest investment rating, for a non-bank financial institution legal entity; or
3) 3 levels (notches) above the lowest investment rating, for a non-financial institution legal entity.

5. Management and Human Resources
a. Management of Commercial Bank
Members of Board of Commissioners and members of Board of Directors should meet the requirements of integrity, competency, and financial reputation. The requirement and procedure for assessing fulfilment of those requirements are stipulated in regulations concerning Fit and Proper Test and GCG.
1) Board of Commissioners
   a) Number of members of board commissioners of a CB shall be no less than three persons and no more than the number of members of board of directors. At least one members of board of commissioners should domicile in Indonesia.
   b) Board of commissioners is led by president commissioner;
   c) Board of commissioners comprises of commissioners and independent commissioners;
   d) No less than 50% of members of board of commissioners are independent commissioners;
   e) Each proposal for replacement and/or
appointment of members of board of commissioners in the Shareholder General Meeting (SGM) should observe recommendation of the Remuneration and Nomination Committee.

f) Members of board of commissioners should meet the requirement of having passed the Fit and Proper Test in accordance with prevailing regulation;

g) A member of board of commissioners can only hold concurrent position as: member of board of commissioners, member of board of directors, or executive officer in a non-financial institution/company or a member of board of commissioners, member of board of directors, or executive officer that executes the oversight function in a non-bank subsidiary company controlled by the bank;

h) A member of board of commissioners is not considered to hold a concurrent position when a non-independent member of board of commissioners performs the functional task of the shareholder of a bank in the form of a legal entity within its business group; and/or a member of board of commissioners holding a position in a non-profit organization or institution, as long as the person concerned does not ignore the tasks and responsibilities as member of the bank’s board of commissioners;

i) Majority members of the board of commissioners are prohibited from having family relationships up to the second degree with other members of the board of commissioners and/or members of board of directors;

j) Members of board of commissioners should execute their tasks and
responsibilities independently and are prohibited from being involved in decision making on bank operational activities;

k) Members of board of commissioners should establish at least: Audit Committee; Risk Monitoring Committee; Remuneration and Nomination Committee;

l) Meetings of board of commissioners should be held periodically, no less than four times in a year, attended by all members of the board of commissioners physically at least two times in a year. In the event any member of the board of commissioners cannot attend the meetings physically, the person concerned may attend the meeting through teleconference technology.

m) Any former member of board of directors or executive officer of the bank or parties who have relationships with the bank, whose capacity to act independently can be influenced, cannot become an independent commissioner in the bank concerned, before undergoing the cooling off period of one year. This stipulation is not applicable on former member of board of directors or executive office who has performed the oversight function.

2) Board of Directors

a) Members of a CB board of directors should be no less than three persons. All members of board of directors should domicile in Indonesia;

b) Board of directors as led by president director;

c) Each proposal for replacement and/or appointment of member of board of directors by board of commissioners in the SGM should observe recommendation of
the Remuneration and Nomination Committee;

d) Majority of members of board of directors should have experience in bank operation of at least five years in the operational field as a bank executive officer, except a CB which conducts business activities based on Sharia Principles;

e) Bank president director should come from a party independent of the Controlling Shareholder;

f) Majority members of board of directors are prohibited from having family relationships up to the second degree with the other members of board of directors and/or members of board of commissioners;

g) Any member of board of directors is prohibited from holding a concurrent position as member of board of commissioners, member of board of directors or executive officer in another bank, company and/or institution;

h) A member of board of directors is not considered to hold a concurrent position when the director concerned is responsible for the supervision of the bank’s participation in a subsidiary company, performs the functional task of member of board of commissioners in a non-bank subsidiary company controlled by the bank, as long as the holding of concurrent position does not cause the person concerned to ignore the performance of tasks and responsibilities as member of bank board of directors;

i) Any member of board of directors, both individually as well as jointly, is prohibited from owning shares exceeding 25% of paid-up capital in another company;
j) Any member of board of directors is prohibited from giving a general power of attorney to another party that causes a transfer of tasks and functions of the director.

k) Board of directors is fully responsible for the implementation of bank management;

l) Board of directors should manage the bank in accordance with their authorities and responsibilities as set in the articles of association and provisions of prevailing legislations;

m) Board of directors is responsible for the accountability of its task implementation to the shareholders in the SGM;

n) Board of directors should disclose to the employees bank policies that are strategic in the field of personnel;

o) All decisions made by board of directors that are in line with the work guidelines and rules are binding and become the responsibility of all members of board of directors; and

p) Any former member of board of directors or executive officer of the bank or parties who have relationship with the bank, whose capacity to act independently can be influenced, cannot become an independent party as a member of the Audit Committee or Risk Monitoring Committee in the bank concerned, before undergoing the cooling off period of six months. This stipulation is not applicable on former member of board of directors or executive office who has performed the oversight function.

Bank should implement risk management in relation to bank management, executive officers, opening, status change, address transfer and/or closing of bank offices, which will include at least:
1) Active supervision by board of commissioners and board of directors;
2) Adequacy of policies, procedures, and limit setting;
3) Adequacy of the risk identification, measuring, monitoring, and control as well as risk management information system; and
4) Overall internal control system.

Approval to the plan for opening, status change, address transfer and/or closing offices in the next one year is given on the consideration of among others a review submitted by the bank, which contains at least:
1) Alignment with business strategy and impact on financial projection;
2) Mechanism for bank office supervision and performance assessment;
3) Overall (bank wide) analysis covering among others economic condition, risk analysis, and financial analysis; and
4) Plan on operational preparations, covering among others human resources, IT, and other supporting facilities.

b. Management of Sharia Commercial Bank

1) Sharia Commercial Bank Board of Commissioners

Members of board of commissioners and board of directors should meet the requirements of integrity, competency, and financial reputation. The requirement and procedure for assessing the fulfilment of those requirements are stipulated in regulation concerning Fit and Proper Test. Board of commissioners undertakes oversight on implementation of the tasks and responsibilities of the board of directors, as well as provides advices to board of directors which are implemented by using as references among others the stipulation concerning GCG implementation applicable for banks.
Board of commissioners have the following details:

a) Number of members of board commissioners shall be no less than three persons and no more than the number of members of board of directors.

b) At least one member of board of commissioners domiciles in Indonesia.

c) Board of commissioners is led by president commissioner;

d) No less than 50% of members of board of commissioners are independent commissioners;

e) Each proposal for appointment and/or replacement of members of board of commissioners in the SGM should observe recommendation of the Remuneration and Nomination Committee.

f) A member of board of commissioners can only hold concurrent position as: member of board of commissioners, member of board of directors, or executive officer in a non-financial institution/company; or a member of board of commissioners or member of board of directors who executes the oversight function in a non-bank financial institution subsidiary company owned by the bank; a member of board of commissioners, member of board of directors, or executive officer in a company which is a shareholder of the bank; or an officer at no more than three non-profit institutions.

g) Majority members of the board of commissioners are prohibited from having family relationships up to the second degree with other members of the board of commissioners and/or members of board of directors;
h) Board of commissioners should monitor and evaluate implementation of the SCB strategic policies; and

i) For the purpose of implementing the tasks and responsibilities, Board of Commissioners should establish at least: (i) Risk Monitoring Committee; (ii) Remuneration and Nomination Committee; and (iii) Audit Committee.

2) Sharia Commercial Bank Board of Directors
   a) Members of board of directors should be no less than three persons;
   b) All members of board of directors should domicile in Indonesia;
   c) Board of directors is led by president director;
   d) Each proposal for appointment and/or replacement of member of board of directors in the SGM should observe recommendation of the Remuneration and Nomination Committee;
   e) Majority of members of board of directors should have experience of at least four years as an Executive Officer in the banking industry, of which minimum one year at least as an Executive Officer in a SCB and/or SBU. For a SCB that is established through the conversion of business activities from a CB, this requirement is only obligatory on one candidate member of board of directors and should be met by majority of the board of directors no later than two years after the license for business activity conversion has been given;
   f) The president director should come from a party independent of the Controlling Shareholder;
   g) Any member of board of directors are prohibited from holding concurrent
position as members of board of commissioners, member of board of directors, or executive office in another bank, company, and/or institution, except when: (i) the director is responsible for the supervision of participation in bank’s subsidiary company, is performing the functional task as member of board of commissioners in a non-bank subsidiary company controlled by the bank; and/or (iii) a director occupying positions in two non-profit institutions;

h) Any member of board of directors, both individually as well as jointly, is prohibited from owning shares exceeding 25% of the paid-up capital in another company;

i) Board of directors is fully responsible for implementation of the SCB management based on prudential principle and Sharia Principles;

j) Majority of members of board of directors is prohibited from having family relationships up to the second degree with the other members of board of directors and/or members of board of commissioners;

k) Any member of board of directors is prohibited from giving a general power of attorney to another party that causes a transfer of tasks and functions of the director.

l) Board of directors is responsible for the accountability of its task implementation to the shareholders in the SGM;

c. Rural Bank Management

Rural Bank management comprises board of directors and board of commissioners. Members of board of directors and members of board of commissioners should meet the requirements of competency, integrity, and financial reputation.
1) Rural Bank Board of Directors
   a) Members of board of directors shall be no less than two persons;
   b) Members of board of directors should have formal education of no lower than D-3 or Bachelor Degree or has completed at least 110 credits in a S-1 (bachelor degree) program;
   c) No less than 50% of members of board of directors should have experience as officers in the field of bank operation of no less than two years, or have undergone internship session of no less than three month at RB;
   d) Members of board of directors should have passing certificates from Certification Institutions;
   e) Members of board of directors are prohibited from having family relationships from other members of board of director and/or members of board of commissioners in relationships such as parent, child, parent in laws, son/daughter in laws, husband, wife, sibling or sister/brother in law;
   f) Any member of board of directors is prohibited from holding concurrent position as member of board of directors or executive officer in a banking institution, company or another institution; and
   g) Any member of board of directors is prohibited from giving a general power of attorney that causes a transfer of tasks and authorities without limit.

2) Rural Bank Board of Commissioners
   a) Members of board of commissioners should be no less than two persons;
   b) No less than 50% of members of board of commissioners should have the knowledge and/or experience in the banking field;
c) Any members of board of commissioners may only hold concurrent position as commissioners in no more than two other RB or SRB;

d) Members of RB board of commissioners are prohibited from holding positions as members of board of directors at RB, SRB, and/or CB;

e) Members of board of commissioners should hold periodic meetings of board of commissioners, no less than four times in a year; and

f) When required by OJK, members of board of commissioners should present results of oversight over the RB.

d. Sharia Rural Bank Management
SRB management comprises board of directors and board of commissioners. Members of board of directors and members of board of commissioners should meet the requirements of: (i) competency; (ii) integrity; and (iii) financial reputation.

1) SRB Board of Commissioners
   a) Board of commissioners is led by president commissioner;

   b) Members of board of commissioners should be no less than two persons and no more than the number of members of board of directors;

   c) In the event the number of members of board of directors is more than two persons, the number of members of board of commissioners should be no more than three persons.

   d) At least one member of board of commissioners should domicile close to the location of the SRB; and

   e) Any member of board of commissioners may only hold concurrent position at no more than two other companies as: (i) members of board of commissioners in
other RB or SRB; or (ii) members of board of commissioners, members of board of directors, and/or executive officers at other non-bank institutions/companies; (iii) a combination of letter (i) and letter (ii).

2) SRB Board of Direction
   a) Board of directors shall be led by president director;
   b) Members of board of directors shall be no less than two persons;
   c) No less than 50% of members of board of directors, including the president director, should have operational experience at least: (i) two years as officers in the field of funding and/or financing in sharia banking; (ii) two years as officers in the field of funding and/or credit in conventional banking and have knowledge in sharia banking field; or (iii) three years as members of board of directors or equivalent to directors at SLKMs;
   d) Members of board of directors should have formal education of no lower than Diploma III or Bachelor Degree;
   e) Members of board of directors should have passing certificates from certification institutions no later than two years after effective dates of the appointments;
   f) President director and other members of board of directors should act independently in performing their tasks;
   g) Members of board of directors are responsible for implementing the management of SRB as an intermediation institution by fulfilling the prudential principle and Sharia Principles;
   h) The president director should be a party independent of the Controlling Shareholder;
   i) All members of board of directors should
domicile close to the location of the Head Office of SRB;

j) Members of board of directors are prohibited from having family relationships with: (i) other members of board of director in relationships such as parent, child, parent in laws, parent of son/daughter in law, son/daughter in law, husband, wife, sibling or sister/brother in law, and/or (ii) members of board of commissioners in relationships such as parent, child, parent in law, parent of son/daughter in law, son/daughter in law, husband, wife, or sibling;

k) Any member of board of directors is prohibited from holding concurrent position as member of board of directors, member of board of commissioners, members of Sharia Supervisory Board or executive officer in a financial institution, business entity or another institution except as the management of non-profit organizations/institutions as long as implementation of the tasks as director of SRB is not disrupted and it should be reported to OJK; and

l) Any member of board of directors is prohibited from giving a general power of attorney that causes a transfer of tasks, authorities and responsibilities to another party.

e. Sharia Supervisory Board

In addition to bank management comprising board of commissioners and board of directors, the organization structure of SCB, SBU, and SRB also comprises a Sharia Supervisory Board (SSB) which tasks and responsibilities are among others:

1) assessing and ensuring the fulfilment of Sharia Principles in operational guide and products issued by bank;
2) supervising the development process of bank new products;
3) requesting fatwa from National Sharia Board/Dewan Sharia Nasional (DSN) for bank new products that do not yet have fatwa;
4) performing periodic review concerning the fulfilment of Sharia Principles on the mechanisms for fund accumulation, fund channeling, and provision of bank services; and
5) requesting data and information related to sharia aspect from bank work units in the implementation of their tasks.

In the case of a SRB, the implementation of SSB’s tasks and responsibilities covers number 2) up to number 5).

Sharia principles in activities related to fund accumulation, financing, and other SRB services are business activities that do not have the elements of: *riba* (usury), *maisir* (gambling), *gharar*, *haram* (illicit) and *zalim* (unjust).

Number of members of SSB in a SCB shall be no less than two persons or no more than 50% of members of board of directors. Meanwhile, number of members of SSB in a CCB that has SBU or in a SRB shall be no less than two persons or no more than three persons. SSB shall be led by a chairman who is one of the members of SSB and any member of SSB may only hold concurrent position as members of SSB at no more than four other sharia financial institutions.

f. Development of Banking Human Resources

CB/SCB and RB/SRB should provide education funds for the enhancement of human resource knowledge and skills in the banking field. In the case of a CB/SCB, education funds should be no less than 5% of total expenditure budget for human resources. Meanwhile, for a RB/SRB, education funds should be no less than 5% of the realized human resource expenditure in the previous year. If there is an outstanding balance in
education funds, the remaining funds should be added to the following year’s education and training funds. Implementation of education and training can be undertaken by way of:
1) own implementation by the bank;
2) participating in education programs undertaken by other banks;
3) joining with other banks in holding education programs; or
4) sending human resources to participate in education programs held by banking education institutions.
The education plan referred above should receive approval from Board of Commissioners or Supervisory Board of CB/SCB/RB/SRB.

9. Competency Certification For Members of Board of Directors and Members of Board of Commissioners of Rural Banks and Sharia Rural Banks
For the purpose of maintaining sustainability of competency quality of members of board of directors and members of board of commissioners of RB and SRB, RB and SRB should be obliged to periodically enroll each member of board of directors and member of board of commissioners in work competency maintenance certification program.
Any RB or SRB should have members of board of directors and members of board of commissioners who all have Work Competency Certificates issued by Professional Certification Institutions. Levels of Work Competency Certifications for RB and SRB members of board of directors and members of board of commissioners are as follows:
1) Work Competency Certificate level 1 should be owned by members of board of directors of any RB and SRB with a total assets of less than Rp300 billion;
2) Work Competency Certificate level 2 should be owned by members of board of directors of any RB and SRB with a total assets of at least
 Rp300 billion; and
3) Work Competency Certificate for members of board of commissioners is only of one level and does not take into account the total asset of the RB and SRB.

The organizers of Work Competency Certification should be Professional Certification Institutions listed at OJK.

6. **Fit and Proper Test for Main Parties of Financial Service Institutions**

For the purpose of supporting the realization of prime licensing, OJK considers it necessary to enhance the regulation concerning fit and proper test so that OJK can provide licensing services for ownership and management of FSI in a more rapid, appropriate, easy, and transparent manner. In addition there is also a need for aligning regulations concerning fit and proper test applicable on FSI in the banking, capital market, and NBFI sectors. The referred alignment is required for preventing the occurrence of regulatory arbitrage and inconsistency in the implementation of the fit and proper test in FSI regulated and supervised by OJK. Candidate Controlling Shareholders, candidate members of board of directors, and candidate members of board of commissioners should obtain approvals from OJK before performing actions, tasks, and functions although they have received approvals from and have been appointed by the SGM. The criteria used in the fit and proper test for bank Main Parties are:

a. Integrity and financial feasibility for candidate Controlling Shareholder; and

b. Integrity, financial reputation, and competency for candidate members of board of directors and candidate members of board of commissioners.

OJK may discontinue the fit and proper test on bank candidates of bank main parties when the candidates concerned are undergoing legal processes and there are indications of problems in integrity, financial feasibility, financial reputation, and/or competency in a FSI. Results of assessments by OJK will be determined
India no later than 30 working days after all request documents have been received in complete condition.

Table 4.2. Objects and Criteria of Fit and Proper Test

<table>
<thead>
<tr>
<th>Object of Fit and Proper Test</th>
<th>Criteria of Fit and Proper Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Candidate Controlling Shareholder</td>
<td>Integrity and financial feasibility</td>
</tr>
<tr>
<td>Candidate members of board of commissioners and candidate members of board of directors</td>
<td>Integrity, competency, and financial reputation</td>
</tr>
</tbody>
</table>

7. Bank Merger, Consolidation, and Acquisition

a. CB/SCB

A merger, consolidation, and acquisition may be undertaken at the concerned bank’s own initiative, at OJK’s request, and/or at the initiative of a special agency and should obtain a permit from OJK.

A merger or consolidation may be undertaken between a commercial bank and a sharia bank when the bank resulting from the merger or consolidation becomes a bank based on Sharia Principles or a conventional bank that owns a Branch Office based on Sharia Principles.

A CB acquisition may be undertaken by an individual or a legal entity, through purchase of both part of as well as all of bank shares, directly as well as through the bourse, which causes a transfer of bank control to the party that undertakes the acquisition. Share purchase that is considered to cause a transfer in bank control is in which share ownership becomes:

1) 25% or more of bank paid-up capital; or
2) less than 25% of bank paid-up capital but it, both directly as well as indirectly, determines bank’s management and/or policies.

b. RB/SRB

A merger, consolidation, and acquisition of a RB/SRB may be undertaken at the concerned RB/SRB’s own initiative or at OJK’s request, and
should obtain a permit from OJK. A merger or consolidation may only be undertaken between RB or SRB.

A merger or consolidation between a RB and a SRB may only be undertaken when the RB resulting from the merger or consolidation becomes a SRB.

A merger or consolidation of RB/SRB may be undertaken:

1) between RB/SRB domiciling in the same provincial area; or
2) between RB/SRB within different provinces as long as the offices of RB/SRB resulting from the merger/consolidation will be located in the same provincial areas.

Acquisition of a RB/SRB may be undertaken by an individual or a legal entity through share take over which results in the transfer of the RB/SRB control. Share purchase that is considered to cause a transfer in RB/SRB control is in which share ownership becomes:

1) 25% or more of RB/SRB paid-up capital; or
2) less than 25% of RB/SRB paid-up capital but it, both directly as well as indirectly, determines bank’s management and/or policies.

8. Incentives in Bank Consolidation

OJK gives incentives to banks which undertake merger or consolidation. The forms of the said incentives are:

a. ease in provision of the license to become a foreign currency bank;
b. temporary easing in the fulfilment of GWM;
c. time extension for settlement of exceedances against the Legal Lending Limit resulting from the merger or consolidation;
d. ease in the provision of licenses for opening bank branch offices;
e. reimbursement of part of consultant fee for the implementation of due diligence; and/or
f. temporary easing in the implementation of several stipulations in the regulation that governs GCG for CB/SCB.
Banks that plan a merger or consolidation should submit a request for planned utilization of incentives that should be submitted by one of the banks that participate in the merger or consolidation and signed by the president directors of all banks that participate in the merger or consolidation.

9. Opening of Bank Office

Bank should state plans for opening, status change, and transfer of address and/or closing of bank offices one year in advance in Bank Business Plan. Submission of the plans together with the reviews should be in line with the regulation concerning CB. OJK has the authority to instruct any bank to postpone the plans for opening, status change and/or transfer of address of bank offices if in accordance with OJK’s assessment there are among others a decline in soundness level, bank financial condition, and/or an increase in bank risk profile. Banks are obliged to state clearly the name and type of bank office at each bank office.

a. Commercial Banks

A bank should conduct business activities and expand office networks in accordance with the bank’s basic capacity, which is the core capital. By operating in accordance with its capacity, it is believed that a bank can have a better resilience and be more efficient because its activities are focused on products and activities in which the bank excels.

Along the same line, the locations where bank offices are located have different coefficients. To provide ease in the calculation of core capital allocation, the area of Indonesia is divided into six zones, starting from zone I, which is a crowded zone with high coefficient, up to zone VI, which is a zone where there is still low number of banks and has a low coefficient.
### Figure 4.1. Division of zones and determination of coefficients

<table>
<thead>
<tr>
<th>Zone I</th>
<th>Zone II</th>
<th>Zone III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coefficient = 5</td>
<td>Coefficient = 4</td>
<td>Coefficient = 3</td>
</tr>
<tr>
<td>DKI Jakarta</td>
<td>Jawa Barat</td>
<td>Kalimantan TImur</td>
</tr>
<tr>
<td>Overseas</td>
<td>Jawa Tengah</td>
<td>Kepulauan Riau</td>
</tr>
<tr>
<td></td>
<td>DI Yogyakarta</td>
<td>Sumatera Utara</td>
</tr>
<tr>
<td></td>
<td>Jawa TImur</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bali</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Zone IV</th>
<th>Zone V</th>
<th>Zone VI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coefficient = 2</td>
<td>Coefficient = 1</td>
<td>Coefficient = 0,5</td>
</tr>
<tr>
<td>Riau</td>
<td>DI Aceh</td>
<td>NTB</td>
</tr>
<tr>
<td>Sumatera Selatan</td>
<td>Jambi</td>
<td>NTT</td>
</tr>
<tr>
<td>Kalimantan</td>
<td>Sumatera Barat</td>
<td>Sulawesi Tengah</td>
</tr>
<tr>
<td>Tengah</td>
<td>Bangka Belitung</td>
<td>Gorontalo</td>
</tr>
<tr>
<td>Kalimantan Selatan</td>
<td>Bengkulu</td>
<td>Sulawesi Barat</td>
</tr>
<tr>
<td>Sulawesi Utara</td>
<td>Lampung</td>
<td>Maluku Utara</td>
</tr>
<tr>
<td>Sulawesi Selatan</td>
<td>Kalimantan Barat</td>
<td>Maluku</td>
</tr>
<tr>
<td>Papua</td>
<td>Sulawesi</td>
<td>Papua Barat</td>
</tr>
<tr>
<td></td>
<td>Tenggara</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kalimantan Utara</td>
<td></td>
</tr>
</tbody>
</table>

If a bank plans to open a new office network, the existing bank office networks should first be taken into account against bank core capital, then the remaining amount will determine the number and type and locations of bank new offices that can be opened.

b. **Domestic Commercial Bank Branch Offices**

1) branch office opening should get a permit from OJK;

2) a bank director or officer in the board of directors submits a request for opening of a branch office to OJK supplemented with supporting documents in line with the regulation concerning CB;

3) approval or rejection on bank request shall be given no later than 20 working days after the request documents are received in complete condition; and

4) implementation of branch office opening should be done no later than 30 working days after the date of OJK’s permit is issued.
c. Commercial Bank Overseas Branch Offices

1) Opening of overseas branch office, representative office and other types of offices, both of operational nature as well as non-operational nature, should obtain a permit from OJK. The permit should be executed within one year since the permit from OJK is issued and can be extended for no longer than one year based on a reason that can be justified;

2) opening an overseas office should also obtain a permit from the local country’s authority;

3) the permit can be awarded by OJK when the bank has become a foreign currency bank for no less than 24 months; has stated the plan for opening the branch office in Bank Business Plan; has met the requirements of soundness level, adequate capital, and risk profile; and has clear address or domicile for the operational office;

4) approval or rejection on bank request should be given no later than 20 working days after the request documents have been received in complete condition; and

5) opening of CB branch office can only be undertaken by BUKU 3 and BUKU 4 banks with the following requirements:
   a) Any BUKU 3 bank may undertake office network opening overseas but limited to the Asia region; and
   b) Any BUKU 4 bank may undertake office network opening in any area overseas.

d. Rural Bank Branch Office

1) Rural Bank Based on Business Activity 1/Bank Perkreditan Rakyat Kegiatan Usaha (BPRKU 1) may only undertake RB Office Network Opening in the same regency or city area as the regency or city area where the RB head office is located. Specifically for BPRKU 1 that has met Core Capital of no less than Rp6 billion, it can
undertake RB Office Network Opening in the same regency or city area where the RB head office is located and/or in regency or city that directly borders with the regency or city where the RB head office is located, within the same provincial area; 

2) Rural Bank Based On Business Activity 2 (BPRKU 2) may only undertake RB Office Network Opening in the same regency or city area as the regency or city area where the RB head office is located and/or in regency or city that directly borders with the regency or city where the RB head office is located, within the same provincial area; and 

3) Rural Bank Based On Business Activity 3 (BPRKU 3) may undertake RB Office Network Opening in the same province where the RB head office is located and in regency or city in another province that borders directly with the province where the RB head office is located.

E. Sharia Commercial Bank Office and Sharia Business Unit

The plan for opening, status change, transfer of address and/or closing of bank offices as well as the plan for opening, transferring and/or discontinuing activities should be stated in the Bank Business Plan together with the reviews. SCB and SBU may open regional offices and functional offices.

b. Overseas Sharia Commercial Bank Branch Office

1) Opening of Branch Office, representative office, and other types of offices overseas may only be undertaken with a permit from OJK; 

2) Opening an office overseas should also obtain a permit from the local country’s authority; 

3) The permit can be awarded by OJK when the bank has become a foreign currency bank for no less than 24 months; has stated the plan for opening the branch office in Bank Business Plan; has met the requirements of soundness
level, adequate capital, and risk profile; and has clear address or domicile for the office; and

4) The approval or rejection on bank request should be given no later than 30 working days after the request documents have been received in complete condition; and

c. Opening of Sharia Services

1) Sharia Commercial Bank in Conventional Commercial Bank

Bank Sharia Services are activities of fund accumulation and/or provision of other bank services based on Sharia Principles, not including fund channeling activities, undertaken in CCB office network for and on behalf of SCB. Consultation activities are undertaken between SCB and CCB for the purpose of risk analysis on candidate customers for financing and projects to be financed by SCB.

SCB may undertake cooperation with CCB by opening Bank Sharia Services and/or using consultation activities available in CCB by meeting among others the following requirements:

a) a CCB has an ownership relationship with a bank in which the CCB is the Controlling Shareholder of the SCB and the Controlling Shareholder of the CCB is also the Controlling Shareholder of SCB; and

b) a CCB, which does not own a SBU, has obtained a permit from OJK to undertake agency activities and/or cooperation in accordance with the stipulation that regulates CB business activities.

2) Sharia Rural Bank Branch Office

Opening of a branch office may only be undertaken with a permit from OJK. Opening of a branch office should at least meet the following requirements:
a) Located in the same Provincial area as the Head Office;
b) Has stated the plan in SRB annual work plan;
c) Is supported by adequate IT; and
d) Makes additional paid-up capital of no less than 75% of the required minimum capital for SRB in accordance with the location of the branch office to be opened.

Specifically for SRB which head offices are located within the areas of DKI Jakarta as well as Regency/City Bogor, Depok, Tangerang, and Bekasi, in addition to being allowed to open branch offices in the same Provincial area as the Head Offices, they are also allowed to open branch offices in the areas of DKI Jakarta as well as Regency/City Bogor, Depok, Tangerang, and Bekasi.

3) Sharia Business Unit
a) any CB that undertakes business activities based on Sharia Principles should open a SBU;
b) Opening of a SBU may only be undertaken with a permit from OJK in the form of a business license. The working capital of a SBU is set and maintained at no less than Rp100 billion:
c) A SBU may be separated from the CB by:
   establishing a new SCB; or
   transferring the rights and responsibilities of the SBU to an existing SCB by meeting the provisions of prevailing regulations.
d) Additional requirements for opening a SBU:
   1. analysis on the CB’s capital capacity; and
   2. analysis on fulfilment of the legal aspect in the separation of the SBU into a SCB.
d. Development of Sharia Banking Office Networks
For The Purpose of Stimulating National Economy for Banks

For the purpose of responding to a condition of slowing economic growth, there is a need for a temporary policy that promotes the growth of sharia banking by yet observing prudential principle and sharia principles. This regulation stipulates among others policy on the development of sharia banking office networks for the purpose of giving a stimulus to the national economy for:

1) Any CCB that supports the development of sharia banking network, in the forms of:
   a) reduction in core capital allocation in the calculation of office network opening; and
   b) an ease in the balanced distribution of office networks.

2) Any SCB, in the forms of:
   a) ease in the requirements for opening Bank Sharia Services in relation to the work area of the Branch Office, which is the parent of the Bank Sharia Services;
   b) expansion of the scope of mobile cash activity services; and/or
   c) lowering of investment cost in the calculation of Core Capital allocation for Office Network Opening.

3) Any SBU, in the forms of:
   a) expansion of types of CCB offices that may undertake Sharia Service activities;
   b) ease in the requirements for opening Sharia Services in relation to the work area of the Branch Office, which is the parent of the Sharia Services;
   c) expansion of the scope of mobile cash activity services; and/or
   d) lowering of investment cost in the calculation of core capital allocation for office network opening.
10. Changes in Bank Name and/or Logo
Any change in bank name and/or logo should be undertaken by meeting the provisions of prevailing legislations, including regulations issued by Ministry of Trade as well as Ministry of Law and Human Rights. In the event the related institution has issued a document giving approval to the change of bank name and/or logo, the said document should be submitted to OJK along with the request for a change in bank name.

11. Closing of Bank Branch Offices
The closing of any of bank domestic branch office should obtain a permit from OJK, in the forms of permit in principle and approval for closure. A request for permit in principle should be accompanied by measures for settling all of the obligations of the branch office to customers and other parties. The request for approval for closure should be submitted no later than six months after having obtained the permit in principle and should be accompanied by documents proving that all bank’s obligations to customers and other parties have been settled as well as a letter from bank’s Director stating that steps for settling all branch office’s obligations to the customers and other parties have been completed and that if there are claims in the future, these will be the bank’s responsibility. Branch office closing that has received approval for closure should be executed no later than 30 working days after the date of OJK’s approval, and announced in a newspaper that has wide circulation in the domicile of the bank office no later than 10 working days after the date of approval for closure from OJK.

The closing of any SBU shall be performed in two stages, namely:

a. Approval for the preparation of business license revocation, for the purpose of settling the SBU’s obligations and claims; and

b. Decision on business license revocation, after all the SBU’s obligations and claims have been settled.

12. Bank Liquidation
Bank liquidation is an act to rescue all of bank’s rights
and obligations as the result of business license revocation and dissolution of the bank legal entity. After October 2005, supervision and execution of the liquidation of banks which business licenses are revoked are performed by Indonesia Deposit Insurance Corporation/Lembaga Penjamin Simpanan (LPS).

13. Revocation of Business License at The Request of Shareholders (Self Liquidation)

A bank that may request for its business license to be revoked at the request of the shareholders shall be a bank that is not placed Under Special Supervision by OJK as stipulated in OJK’s regulation concerning follow up and determination of bank status.

Revocation of business license at the request of bank's shareholders can only be performed by OJK if the bank has settled its obligations to all customers and other creditors.

Revocation of business license at the request of bank’s shareholders shall be performed in two stages, namely approval for preparation of business license revocation and decision for business license revocation.

Bank’s board of director should submit a request for approval for preparation of business license revocation to OJK and should supplement it with related documents in line with the prevailing regulation.

After that, OJK will issue a letter of approval for preparation of bank’s business license revocation and oblige bank to discontinue all bank’s business activities, announce the plan for dissolution of bank legal entity, and plan for settling bank’s obligations in two daily newspapers with wide circulation no later than 10 working days since the date of the letter of approval for preparation of bank’s business license revocation, immediately settle all bank’s obligations and appoint a Public Accounting Firm to undertake verification on the settlement of bank’s obligations.

When all bank’s obligations have been settled, bank’s board of directors submits a request for bank’s business license revocation together with related reports (in accordance with regulations) to OJK. When
approved, OJK will issue a Decision Letter on revocation of bank’s business license and request bank to execute dissolution of the legal entity in accordance with the provisions of prevailing legislations. Since the date of business license revocation is issued, if in the future there are yet obligations that have not been settled, these shall be the responsibility of bank’s shareholders.

14. Business License Revocation as Follow Up Of The Condition Of Not Being Able to Be Rehabilitated

On any bank that is determined by OJK as a bank That Cannot Be Rehabilitated/Tidak Dapat Disehatkan (TDS), OJK will submit the information to the LPS and request LPS to decide to rescue or not to rescue the bank. If LPS decides not to rescue the bank, OJK will follow up this matter with Business License Revocation/Cabut Ijin Usaha (CIU).

15. Change in Conventional Bank Business Activities To Sharia Bank

A Conventional Bank may undertake a change in business activities into a Sharia Bank, as long as it receives a permit from OJK. Main points of the arrangement are:

a. A change in a Conventional Bank’s business activities into a Sharia Bank may be done:
   1) a CCB into a SCB; or
   2) a RB into a SRB.

b. A CCB that is going to be a SCB or a RB that is going to be a SRB should meet the regulation concerning SCB capital or regulation concerning SRB capital;

c. A CCB that is going to be a SCB or a RB that is going to be a SRB should establish a Sharia Supervisory Board (SSB);

d. the request for the permit to change business activities should be submitted by a Conventional Bank along with among others:
   1) missions and vision of the change of business activities into a Sharia Bank
   2) draft amendment of the articles of associations;
3) name and identity data of candidate Controlling Shareholder, candidate members of board of directors, candidate members of board of commissioners, and candidate members of SSB
4) Sharia Bank Business Plan;
5) feasibility study concerning market opportunities and economic potentials; and
6) plan for settlement of customers’ rights and obligations.
e. Any CCB/RB that has received the permit to change on business activities into a SCB/SRB should state clearly:
   1) the word “Sharia” in name writing; and
   2) iB logo on Sharia Bank forms, agreements, products, offices and office networks.

B. Regulations Concerning Bank Business Activities, Supporting Activities, and Services

1. Bank Business Activities
   a. Conventional Commercial Bank business activities that may be conducted for each BUKU are set as follows:
      1) BUKU 1 may only conduct:
         a) business activities in Rupiah, covering:
            (1) fund accumulation activities that are the basic products or activities;
            (2) fund channeling activities that are the basic products or activities;
            (3) trade finance activities;
            (4) activities with limited scope for agency and cooperation;
            (5) activities concerning the payment system and electronic banking with limited scope;
            (6) activities of temporary capital participations for the purpose of rescuing credits; and
            (7) other services;
         b) activities as foreign currency trader; and
c) other activities categorized as basic products or services in Rupiah that are commonly conducted by Banks and are not in violation with the provisions of legislations.

2) BUKU 2 may only conduct:
   a) Business Activities in Rupiah and foreign currencies:
      (1) fund accumulation activities as may be conducted by BUKU 1;
      (2) fund channeling activities as may be conducted by BUKU 1 but with wider scope;
      (3) trade finance activities;
      (4) limited treasury activities; and
      (5) other services;

   b) Business Activities as for BUKU 1 with wider scope for:
      (1) agency and cooperation; and
      (2) activities related to payment system and electronic banking;
      (3) capital participation activities in financial institutions in Indonesia;
      (4) temporary capital participation activities for the purpose of rescuing credits; and
      (5) other activities that are common to be undertaken by banks as long as they do not violate the provisions of legislations;

3) BUKU 2 may conduct all business activities as referred to in number 2), both in Rupiah and foreign currencies, as well as capital participations in financial institutions in Indonesia and/or overseas, but limited to the Asian region; and

4) BUKU 4 may conduct all Business Activities as referred to in number 2), both in Rupiah and foreign currencies, as well as capital participations in financial institutions in...
Indonesia and/or all areas overseas in amounts larger than those allowed for BUKU 3.

b. Sharia Commercial Bank and Sharia Business Unit

Business Activities that may be conducted by each BUKU are set as follows:

1) BUKU 1 may only conduct:
   a) Business Activities in Rupiah, covering:
      (1) fund accumulation activities that are the basic products or activities;
      (2) fund channeling activities that are the basic products or activities;
      (3) trade finance activities;
      (4) activities with limited scope for agency and cooperation;
      (5) activities concerning the payment system and electronic banking with limited scope;
      (6) activities of temporary capital participations for the purpose of rescuing credits;
      (7) other services;
   b) Activities as foreign currency trader; and
   c) Other activities that are categorized as basic products or activities in Rupiah that are common to be undertaken by Banks and are not in violations with the provisions of legislations.

2) BUKU 2 may conduct:
   1. Business Activities in Rupiah and foreign currencies:
      (1) fund accumulation activities as may be conducted by BUKU 1;
      (2) fund channeling activities as may be conducted by BUKU 1 with a wider scope;
      (3) trade finance activities;
      (4) limited treasury activities; and
      (5) other services;
   2. Business Activities as referred to under BUKU 1 with a wider scope for:
(1) agency and cooperation; and
(2) activities related to payment system
and electronic banking;
3. Capital participation activities at financial
institutions in Indonesia;
4. Activities of temporary capital
participations for the purpose of rescuing
credits; and
5. Other activities that are common to be
undertaken by banks as long as they are
not in conflict with the provisions of
legislations;
3) BUKU 3 may conduct all business activities as
referred to in number 2), both in Rupiah as
well as in foreign currencies, as well as capital
participations in financial institutions in
Indonesia and/or overseas, but limited to the
Asian region; and
4) BUKU 4 may conduct all Business Activities as
referred to in number 2), both in Rupiah as
well as foreign currencies, as well as capital
participations in financial institutions in
Indonesia and/or all areas overseas in
amounts larger than those allowed for
BUKU 3

c. Rural Bank Business Activities should be in line with
BPRKU categories as follows:
1) BPRKU 1:
a) Fund accumulation in the forms of:
   (1) Deposits in the forms of term deposits,
savings deposits, and/or other
equivalent forms; and
   (2) Loans received;
b) Funds channeling;
c) Funds placements in the forms of:
   (1) Demand deposits (giro), term deposits,
certificates of deposit, and/or savings
deposits for commercial banks and
sharia commercial banks;
   (2) Term deposits, and/or savings
deposits at RB and sharia rural banks; and

(3) Certificates of Bank Indonesia;

d) Other activities for supporting RB business activities, in the forms of:

(1) Non-office based financial service agency activities for the purpose of financial inclusion (Laku Pandai);

(2) Salary payment services for RB customers;

(3) cooperation activities for the purpose of fund transfers that are limited to receipts of money transfers from overseas;

(4) Marketing activities of Electronic Money from other issuers;

(5) Fund transfers, both for own interest as well as the interests of customers, through RB accounts in commercial banks;

(6) Cooperation activities with insurance companies for referring insurance products to customers that are linked to RB products;

(7) Receiving fund deposits for the purpose of payment services for claims such as electricity bills, telephone bills, water bills, and taxes; and

(8) Activities as ATM Card issuer, for any BPRKU 1 that has a minimum core capital of Rp6 billion.

2) BPRKU 2:

1. Business Activities that may be conducted by BPRKU 1;

2. Foreign currency exchange business activity; and

3. Other activities to support RB business activities in the forms of:

(1) Activities as Debit Card issuer; and

(2) Activities as Electronic Money issuer.
3) BPRKU 3:
   a) Business Activities that may be conducted by BPRKU 2; and
   b) Other activities to support RB business activities in the forms of:
      (1) Provision of Electronic Banking services; and
      (2) Activities as the operator of non-office based financial services for the purpose of financial inclusion (Laku Pandai).

2. Deposits
   a. Giro (Demand Deposits)
      A giro (demand deposits) account is an account which withdrawals may be made using checks, bilyet giro (giro drafts), other payment instruction vehicles or by book transfers. In regard account opening, any bank is prohibited from accepting a customer whose name is listed in the prevailing national black list.
      Giro accounts in a sharia bank may be based on wadi’ah or mudharabah agreement. In regard giro accounts based on wadi’ah agreements, no bank is allowed to promise yields or bonuses.
      In regard giro accounts based on mudharabah agreements, customers should maintain minimum giro balances set by the bank that cannot be withdrawn except at account closing.
      Provision of profits to mudharabah giro customers shall be based on the lowest balances at the end of the reporting month.

   b. Term Deposits
      Term deposits are deposits which withdrawals may only be made at certain times based on agreements between depositors and the bank. CB and RB may issue bilyet deposito (deposit drafts) on term deposits. Interests on term deposits are imposed with final income tax.
      Terms deposits at sharia banks shall be based on mudharabah agreements, with the conditions
among others that the bank is not allowed to reduce customer parts of the profits without the approvals of the customers concerned and cover deposit costs by using bank profit ratio.

c. Certificates of Deposits
Certificates of Deposit are savings in the form of deposits, including those based on sharia principles, which certificates as proofs of deposits are transferable. CB that may issue Certificates of Deposits should meet the following criteria:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Certificate of Deposit With Agreement</th>
<th>Certificate of Deposit Without Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rupiah</td>
<td>Any bank, without approval</td>
<td>Bank should first obtain approval from OJK at the first time of issuing the Certificates of Deposit without agreements.</td>
</tr>
<tr>
<td>Foreign Currency</td>
<td>Any bank that has already received approval for conducting business activities in foreign currencies (foreign currency bank)</td>
<td>Any bank that has received approval from OJK for conducting business activities in foreign currencies (foreign currency bank) and for issuance of Certificates of Deposit without agreements.</td>
</tr>
</tbody>
</table>

Certificates of Deposit that are issued shall have the following characteristics:
1) can be issued with agreements or without agreements, in accordance with the requirements that can be met by the CB;
2) when issued with agreements, the certificates of deposit should be of the nature of being able to be replaced.
3) In regard Certificates of Deposit without agreements, bank should identify the owners at the recordings at Depository and Settlement Institution/Lembaga Penyimpan dan Penyelesaian (LPP);
4) Certificates of Deposit may be issued in Rupiah currency as well as foreign currencies.

5) the nominal amount shall be no less than Rp10 million or its foreign currency equivalent;

6) the tenure shall be minimum one month and maximum 36 months; and

7) in regard a CB, the interests of Certificates of Deposit are fixed and paid at discount.

d. Savings
Savings are deposits which withdrawals may only be done in accordance with certain agreed conditions, but cannot be withdrawn with checks, bilyet giro or other similar instruments. The requirements for operating savings are among others:

1) Banks may only operate savings in rupiah;

2) Determination of interest rates are at the discretion of each bank; and

3) Interests received on savings should be deducted by income tax (PPh).

Savings in sharia banks may be based on wadi’ah or mudharabah agreements. In regard wadi’ah savings, banks are not allowed to promise yields or bonuses to the customers.

In regard mudharabah savings, the customers should invest certain minimum funds in amounts set by the banks which cannot be withdrawn by the customers except at account closing.

3. Non-Office Based Financial Services For the Purpose Of Financial Inclusion (Laku Pandai)
Laku Pandai is a program that provides banking services and/or other financial services through cooperation with other parties (bank agents) and is supported by the use of IT facilities. Laku Pandai is necessary considering:

a. There are still many members of the public who do not yet know about and how to use and/or receive banking services and other financial services due to, among others domiciling in locations far from bank offices and/or the existence of costs or
requirements that are burdensome;

b. OJK, banking industry, and other financial services industries have the commitment to support the realization of financial inclusion;

c. The Government of Indonesia launched the National Financial Inclusion Strategy program in June 2012, comprising among others branchless banking, and

d. The existing branchless banking needs to be developed to enable banking services and other financial services to reach all layers of the society all over Indonesia.

The objective of Laku Pandai is to support efforts related to economic growth and equitable development between regions, particularly villages and eastern Indonesia region by providing access for lower-income communities to be able to conduct financial transactions, particularly banking transactions, from where they live, and providing financial products that are simple, easy to understand, and in line with the needs of the communities which at present have not been able to reach financial services. Products provided by Laku Pandai are:

a. Savings with the characteristics of Basic Saving Account (BSA), which are:

   1) without minimum limits, both in terms of balance as well as cash deposit transactions, however has a maximum balance limit at any time of Rp20 million and a cumulative limit for account debit transactions, among others cumulative cash withdrawals for each month are limited to Rp5 million; and

   2) without monthly administration charge and is not charged with costs for account opening and closing nor for credit transactions, such as for cash deposits.

The complete illustration of BSA savings is shown in Figure 4.2.

b. Credits/Financing for Micro Customers

Credits/financing has the objective of financing
business activities that are productive and/or other activities that support financial inclusion, such as for agriculture, plantation, establishing a small shop (warung) and financing for higher education.

**Figure 4.2. Characteristics of BSA savings**

- **Indonesian Citizen**
- **Getting interest/revenue share from account balance of Rp 1,000**
- **Giving benefits and various facilities for Individual**
- **Account opening, cash deposit transactions, incoming transfer transactions, inter-account transfer transactions, account closing.**
- **Low cost**
- **Free monthly administrative fee and free cost on certain transactions.**
- **Cannot be a joint account with the status of “and/or”**
- **Rupiah currency**
- **Maximum account balance is set at no more than Rp20 million**
- **Maximum cumulative savings debit transactions is set at no more than Rp5 million/month**
- **If BSA customer is also micro credit/financing debtor, maximum cumulative account debit transactions is no more than Rp 60 million/year**

**c. Micro Insurance**

This type of insurance product is intended to protect low-income communities with easy premiums, for example, health insurance for dengue fever and typhoid, fire insurance, accident insurance and earthquake insurance.

By owning BSA savings, the community can keep their money in the banks without being worried that the balances of their savings will shrink because of account administration charges. On the contrary, their accounts will still receive interests on savings and are guaranteed by LPS. In addition, the community can also conduct the transactions without having to go to bank offices but they just need to visit the locations of the Laku Pandai agents that are closer to where they live.

The requirements of being able to own a BSA account is being an Indonesian Citizen, not yet
owning a savings account, and/or is willing to only have one savings account at that bank.

In the event ownership of a BSA account has reached six months or even less than six months as long as it meets certain considerations set by the operating bank, the owner of the BSA savings can submit a request for micro customer credit. The request for credit/financing can be submitted by the BSA customer at the bank office (Sub Branch Office), or through an agent who will forward the request to the nearest bank office that supervises the agent.

A bank that operates Laku Pandai is a bank that meets the following requirements:

a. Indonesian legal entity;
b. Having risk profile in accordance with requirement;
c. Having office networks in Eastern Indonesia Region and/or Nusa Tenggara Timur;
d. Having SMS banking/mobile banking and internet banking/host to host products and activities; and
e. Has obtained approval from OJK.

Meanwhile, an agent is a party that undertakes cooperation with a bank operating Laku Pandai (individual and/or legal entity) that acts as the extended arm of the bank in providing banking services and other financial services in accordance with what has been promised to the community in the context of financial inclusion.

An agent can serve the customers in accordance with the service scope stated in the cooperation agreement with the bank as depicted below:
Table 4.4. Type of Laku Pandai agent

<table>
<thead>
<tr>
<th>Individual</th>
<th>Legal Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Teachers, retirees, traditional chiefs, warung owners or heads/owners of non-legal entity companies such as CV or Firma)</td>
<td>(Teachers, retirees, traditional chiefs, warung owners or heads/owners of non-legal entity companies such as CV or Firma)</td>
</tr>
<tr>
<td>a. Local people</td>
<td>a. Indonesian legal entity that is allowed to conduct activities in the financial field or has a retail outlet.</td>
</tr>
<tr>
<td>b. Having activities in the location as the main sources of income.</td>
<td>b. Having business activities in the location.</td>
</tr>
<tr>
<td>c. Having capability, credibility, reputation and integrity.</td>
<td>c. Having adequate IT.</td>
</tr>
</tbody>
</table>

Having passed the due diligence held by the operating bank.

Figure 4.3. Service coverage and classification of Laku Pandai agent

<table>
<thead>
<tr>
<th>Classification Agent</th>
<th>Scope of Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>a</td>
</tr>
<tr>
<td>B</td>
<td>a, b</td>
</tr>
<tr>
<td>C</td>
<td>a, c</td>
</tr>
<tr>
<td>D</td>
<td>a, b, c</td>
</tr>
<tr>
<td>E</td>
<td>a, c, d</td>
</tr>
<tr>
<td>F</td>
<td>a, b, d</td>
</tr>
<tr>
<td>G</td>
<td>a, b, c, d</td>
</tr>
</tbody>
</table>

4. Credit Restructuring
   a. Credit restructuring is an effort to rehabilitate
undertaken by Bank in credit activities on a debtor that experiences difficulties in meeting his/her obligations, and is performed through:
1) lowering of credit interest rate;
2) extension of credit tenure;
3) reduction of credit interests in arrears;
4) reduction in credit principal in arrears;
5) addition to credit facility; and/or
6) conversion of credit into Temporary Capital Participation.

b. Bank can only conduct credit restructuring on a debtor that meets the following criteria:
1) debtor experiences difficulties in repaying credit principal or interests; and
2) debtor has a good business prospect and is capable of meeting his/her obligation after credit restructuring.

c. Bank is prohibited from conducting credit restructuring with the purpose of only to improve credit quality or avoid the obligation to establish Provision for Asset Write-Off/Penyisihan Penghapusan Aset (PPA).

d. Quality of restructured credit is set as follows:
1) Only as high as quality of the credit before credit restructuring, as long as the debtor has not met the obligations of repaying the principal and/or interests for three consecutive periods in accordance with the agreed timing;
2) Can rise at the highest one level above quality of the credit before restructuring, after the debtor has met the obligations of repaying the principal and/or interests for three consecutive periods as referred to in number 1); and
3) Based on assessment factors on business prospect, debtor performance, and capability to make payments:
   a. After determination of credit quality as referred to in number 2); or
   b. In the case the debtor does not meet the conditions and/or obligations to make
payments contained in the credit restructuring agreement, both during as well as after the three periods of payment obligations in accordance with the agreed timing.

e. Bank should book losses arising from credit restructuring after setting it off with excess in PPA. Income on restructured credit is recognized and recorded in accordance with prevailing Statement of Financial Accounting Standard (SFAS).

5. **Custodian with Management (Trust)**

There is a need for strong legal foundation for the banking industry to provide Trust services to Settlor customers, both in the form of corporations as well as individuals, in order to boost the incoming of repatriation funds into the Indonesian Banking Industry. In custodian with management (trust) activities there are three parties that are involved, namely:

a. Settlor is the party who entrusts properties/funds and gives the authority to manage the funds to the Trustee;

b. Trustee (in this case the bank) as the party who is given the authority by the Settlor/Entruster to manage the properties/funds for the interest of the party that receives the benefits, namely Beneficiary; and

c. Beneficiary as the party who receives the benefits from those properties/funds.

The function of trustee can be conducted by a bank or branch office of a bank domiciling overseas as long as certain criteria are met and a permit from OJK has been obtained in the form approval in principle and confirmation letter.

A bank that conducts Trust activities should give monthly written report to OJK no later than the 15th of the following month after the end of the reporting month. The report is submitted through a letter signed by head of the Trustee work unit and acknowledged by an officer that supervises the Trustee work unit.
6. **Guideline for Development of Bank Credit Policies**
   A bank should have a written guide for credit policies which at least contains and stipulates main points as set in the guidelines for development of bank credit policies as follows:
   a. credit prudential principle;
   b. credit organization and management;
   c. credit approval policy;
   d. credit documentation and administration; and
   e. credit supervision and settlement of problem credits.
   Bank should comply with bank credit policies that have been developed consistently.

7. **Obligation in Preparation and Implementation of Bank’s Credit or Financing Policies for Commercial Banks**
   As one of the main business activities undertaken by the Bank, provisions of credits or financing contain a relatively high risk that may cause losses the Bank and affect the soundness and business viability of the Bank. To reduce the said potential risk, banks are required to apply prudential principles and sound credit or financing principles and have written credit or financing policies. Bank credit or financing policies shall at least contain and set the following main points:
   a. Credit or financing prudential principle;
   b. Credit or financing organization and management;
   c. Credit or financing approval policy;
   d. Credit or financing documentation and administration;
   e. Credit or financing oversight;
   f. Non-performing credit or financing settlement.
   Banks are required to comply with and implement in an accountable and consistent manner bank credit or financing policies that have been developed. Any breach of the provisions of this OJK Regulation will cause the Bank to be subjected to administrative sanctions affecting the bank’s soundness rating.
8. **Standard for Operating Information Technology for Rural Banks and Sharia Rural Banks**

For the purpose of stepping up operational efficiency and service quality for the communities who use banking services, there is a need for efficient IT operations by RB and SRB.

In this regulation, RB and SRB are obligate to conduct IT operation at least:

a. banking core applications and data center for any RB/SRB that has core capital of less than Rp50 billion, or

b. banking core applications, data center, and disaster recovery center for any RB/SRB that has core capital of no less than Rp50 billion.

Any RB and SRB is also obliged to have and place data center and disaster recovery center in an area in Indonesia with different risk characteristic. Banking core applications, which should be owned by any RB/SRB, should among others:

a. implement provisions of legislations for RB and SRB;

b. perform accounting recording for transactions between office networks on the same day for RB and SRB that do not provide electronic banking and do not conduct activities as ATM card issuers, or in online and real-time mode for RB and SRB that provide electronic banking and do not conduct activities as ATM card issuers;

c. produce data and information used to support report development process for internal as well as external needs; and

d. consolidate functions that exist in the banking core applications to support provision of data and information that are complete, accurate, up-to-date, and intact.

RB and SRB are prohibited from conducting activities as providers of IT services to other parties, except when related to products and services that are provided by RB/SRB.
9. Stipulation on Sharia Products

a. Sharia Bank and Sharia Business Unit Products and Activities

In order to mitigate various risks related to development and innovations of Sharia Bank and SBU products and/or activities which need to be balanced with licensing mechanism as well as product and activity reporting in line with efforts to develop Sharia Banks and SBU, the development and innovations of Sharia Bank and SBU products and activities should continue to apply sharia principles, prudential principle, and customer protection principle.

1) In its business activities, any bank may issue new products and/or conduct new activities. The criteria for new products and/or activities are as follows:
   a) They have not previously been issued or conducted by the bank concerned; or
   b) They have been previously issued or conducted by the bank but development in features or characteristics have been made.

2) Bank should state the plan for issuing new products and/or conducting new activities in Bank Business Plan as well as have written policies and procedures for managing risks inherent in bank new products and/or activities.

3) Bank should obtain approval from OJK to issue new products and/or conduct new activities if the new products and/or activities are not stated in the codification of bank products and activities.

4) Bank may issue new products and/or conduct new activities without approval from OJK in the case the new Products and/or Activities:
   a) have been stated in the codification of bank products and activities;
   b) have been stated in Bank Business Plan;
   c) are in line with BUKU classification (except
SRB); and
d) are supported by adequate operational preparation.

5) Bank should submit a report on realization of the issuance of new products and/or conduct of new activities for products and/or activities that both require and do not require approvals.

6) Discontinuation of products and/or activities may be made by any bank based on certain considerations or by OJK’s instruction.

7) Request for approval or report on the realization of issuance of new products and/or conduct of new activities, which have been submitted prior to the effectiveness of OJK Regulation Number 24/POJK.03/2015 but has not received approval or rejection, shall refer to OJK Regulation Number 24/POJK.03/2015.

b. Sharia Principles In Sharia Bank Fund Accumulation and Fund Channeling Activities As Well As Services.

Bank business activities related to fund accumulation, fund channeling, and services based on Sharia Principles conducted by a bank constitute banking services. In conducting the said banking services, bank should comply with Sharia Principles. The said fulfilment of Sharia Principles shall be performed by meeting main stipulations of the Islamic law, among others the principles of just and balanced (‘adl wa tawazun), benefit (maslahah), universalism (alamiyah) as well as not containing gharar (risk), maysir (gambling), riba (usury), zalim (unjust), dan haram (illicit).

Fulfilment of Sharia Principles shall be performed as follows:

1) Fund accumulations that use among others Wadi’ah and Mudharabah agreements;

2) Fund channeling/financing that use Mudharabah, Musyarakah, Murabahah, Salam, Istishna’, Ijarah, Ijarah Muntahiya Bittamluk (IMBT) and Qardh agreements; and
3) Services that use among others *Kafalah*, *Hawalah* and *Sharf* agreements.

When there are disputes between a bank and the customers, the settlements can be made among others through *musyawarah* (discussion), bank mediation, Sharia arbitrage or judiciary institutions.

c. Stipulation for Financing Product for Gold Ownership for Sharia Banks and SBU

To step up bank prudence in channeling Gold Ownership Financing product, a stipulation concerning this product is set to cover among others:

1) Any Sharia Bank/SBU should have adequate written policies and procedures;

2) The collateral for Gold Ownership Financing is the gold being financed by the Sharia Bank/SBU that is bound by lien, kept in the physical at the Sharia Bank/SBU and cannot be exchanged with another collateral;

3) Any Sharia Bank/SBU is prohibited from charging the cost for keeping and maintaining the gold that is used as collaterals for Gold Ownership Financing;

4) Amount of Gold Ownership Financing for each customer is set at no larger than Rp150 million. A customer is allowed to obtain Gold Ownership Financing and *Qardh* with gold collateral at the same time, with overall balance of no larger than Rp250 million, where the total balance for Gold Ownership Financing is no larger than Rp150 million;

5) Advance payment for Gold Ownership Financing is no less than 20% for gold bullion/bar and no less than 30% for gold jewelries; and

6) The tenure of Gold Ownership Financing is no shorter than two years and no longer than five years.
10. Obligation to Meet Net Stable Funding Ratio for Commercial Banks

The Net Stable Funding Ratio (NSFR) is a comparison between available stable funding (ASF) with the required stable funding (RSF). ASF is the amount of stable liabilities and equity for a period of 1 (one) year to fund activities of the bank. RSF is the amounts of assets and administrative accounts that need to be funded by stable funding.

Banks are required to maintain sufficient stable funding calculated using the NSFR, which is set for at least 100%. OJK Regulation on NSFR aims to:

a. Maintain stable funding adjusted to the composition of assets and administrative accounts;

b. Reduce liquidity risk related to funding sources for a longer period of time; and

c. Improve the stability of bank funding by limiting over-reliance on short-term funding sources from corporations.

Fulfillment of NSFR applies to BUKU 4 and BUKU 3 Banks as well as foreign banks. Banks are required to monitor fulfilment of NSFR individually and at consolidation level on a monthly basis by developing NSFR Working Paper and NSFR Report. NSFR reporting to OJK is performed for the end of the quarter position. In the event that any bank is unable to meet the NSFR up to 100%, the Bank is required to submit:

a. NSFR working paper and NSFR report for the end of the reporting month position;

b. Action plan for fulfilment of NSFR; and

c. Implementation report of the action plan for fulfilment of NSFR

C. Stipulation Concerning Prudential Principle

1. Bank Core Capital

a. Commercial Bank

In the conduct of business activities and expansion office networks, a bank should do so in line with basic capacity owned by the bank, namely the core capital. By operating in line with its capacity, a bank
is believed to be able to have better resilience and to be more efficient because its activities are focused on products and activities in which the bank excels.

Based on core capital, bank business activities can be categorized into four, namely BUKU 1, BUKU 2, BUKU 3, and BUKU 4. In line with the size of the core capital, business activities categorized in BUKU 1 are more about providing basic banking services. Business activities categorized in BUKU 2 are wider than those of BUKU 1 and so are the cases up to BUKU 4, which covers business activities that are comprehensive and complex.

Any bank should also meet targeted size of productive credit in line with the category of its business activities, starting from 55% for BUKU 1 up to 70% for BUKU 4. These percentages are calculated against bank total credit portfolios and already include the obligation to channel MSME credit amounting to 20% of total credit portfolios.

b. Rural Bank

Categorization of RB based on core capital are set at three strata, namely:

1) BPRKU 1, is a category of any RB with core capital of less than Rp15 billion;
2) BPRKU 2, is a category of any RB with core capital of no less than Rp15 billion up to less than Rp50 billion; and
3) BPRKU 3, is a category of any RB with core capital of no less than Rp50 billion. Any RB may only conduct business activities and open office networks in area coverage that is in line with its core capital.

2. Minimum Capital Adequacy Requirement
   a. Commercial Banks

   For the purpose of creating a banking system that is sound and able to develop as well as compete, at national as well as international levels, banks need to step up the capacity to absorb risks arising from crisis condition and/or excessive banking credit growth through a step up in the quality and quantity of bank capital in accordance with the prevailing international standard, namely Basel III. In this regard, the following stipulation is set for the fulfilment of Minimum Capital Adequacy Requirement (MCAR):

   1) 8% of Risk Weighted Asset (RWA) for any Bank with risk profile of Rating 1;
   2) 9% up to less than 10% of RWA for any Bank with risk profile of Rating 2;
   3) 10% up to less than 11% of RWA for any Bank with risk profile of Rating 3; or
   4) 11% up to 14% of RWA for any Bank with risk profile of Rating 4 or Rating 5.

   In addition to the stipulation concerning bank minimum capital adequacy requirement above, the following matters are also set:

   1) to calculate minimum capital in accordance with risk profile, a bank should have Internal Capacity Adequacy Assessment Process (ICAAP), which covers: (i) active oversight by board of commissioners and board of directors; (ii) assessment of capital adequacy; (iii) monitoring and reporting; and (iv) internal control. OJK reviews ICAAP or as it is called Supervisory Review and Evaluation Process (SREP);
2) A branch office of a bank domiciling overseas should meet minimum Capital Equivalency Maintained Assets (CEMA) amounting to 8% of total bank’s obligations each month and no less than Rp 1 trillion. Calculation of minimum CEMA should be performed each month and should be met no later than the 6th of the following month;

3) A bank should provide main core capital (common equity tier 1) of no less than 4.5% of RWA and core capital (tier 1) of no less than 6% of RWA, both individually as well as in consolidation with Subsidiary Companies; and

4) A bank should establish additional capital as a buffer above the minimum capital adequacy requirement in accordance with risk profile, which is set as follows:
   a) Capital Conservation Buffer amounting to 2.5% of RWA for any bank categorized in BUKU 3 and BUKU 4, which fulfilment shall be performed in stages;
   b) Countercyclical Buffer in the range of 0% up to 2.5% of RWA for all banks; and
   c) Capital Surcharge for Domestic Systematically Important Bank (D-SIB) in the range of 1% up to 2.5% of RWA for any bank determined to have systemic impact.

b. Sharia Commercial Bank
For the purpose of creating a sharia banking system that is sound and capable of developing and competing, both at national as well as international levels, banks need to step up the capacity to absorb risks arising from crisis condition and/or excessive banking financing growth through a step up in the quality and quantity of bank capital in accordance with the prevailing international standard, namely Basel III, and Islamic Financial Services Board (IFSB). Calculation of capital adequacy is one of the basic aspects in the implementation of prudential
principle. Capital functions as a buffer for absorbing losses arising from various risks. The following provisions are set for SCB MCAR:

1) Any bank should provide minimum capital in line with the risk profile, which is set no lower than as follows:
   a) 8% of RWA for any bank with risk profile of rating 1;
   b) 9% up to less than 10% of RWA for any bank with risk profile of rating 2;
   c) 10% up to less than 11% of RWA for any bank with risk profile of Rating 3; or
   d) 11% up to 14% of RWA for any Bank with risk profile of Rating 4 or Rating 5.

2) In addition to the requirement to provide minimum capital in line with the risk profile, a bank should establish additional capital as a buffer as follows:
   a) Capital Conservation Buffer amounting to 2.5% of RWA for any bank categorized in BUKU 3 and BUKU 4;
   b) Countercyclical Buffer in the range of 0% up to 2.5% of RWA; and/or
   c) Capital Surcharge for D-SIB in the range of 1% up to 2.5% of RWA.

3) In the case a bank owns and/or exercises control over subsidiary companies, the requirement to provide minimum capital and the requirement to establish additional capital as a buffer shall be applicable on the bank both individually as well as in consolidation with the subsidiary companies.

4) Capital Comprises:
   a) Core capital (tier 1) which covers:
      (1) Main core capital (common equity tier 1), which covers:
          (a) paid-up capital;
          (b) reserve for additional capital (disclosed reserve); and
(2) additional core capital (additional tier 1); and

b) Supplementary capital (tier 2).

5) Capital components that are taken into account in OJK Regulation Number 21/POJK.03/2014, in addition to already referring to international stipulations and standards, also already accommodate instruments that have taken into consideration their suitability with sharia banking characteristics and fatwa issued by National Sharia Board – Indonesian Council of Ulama (DSN-MUI), which is reflected in the calculation of RWA.

6) Each bank should take into account RWA for credit risk and RWA for operational risk. In addition, any bank that meets certain criteria should also take into account RWA for market risk.

7) In meeting the minimum capital adequacy requirement in line with the risk profile, both individually as well as in consolidation with subsidiary companies, a bank is obliged to have ICAAP that is in line with the bank’s business size, characteristics, and complexity.

8) OJK performs SREP and as a result OJK may request a bank to improve its ICAAP.

9) Dates of enforcement:

a) Minimum capital in line with risk profile, minimum core capital 6%, minimum main core capital 4.5%, starting from 1 January 2015.

b) Requirement for new capital component, starting from 1 January 2016.

c) Capital Conservation Buffer amounting to 2.5%, in stages, starting from 1 January 2016 up to 1 January 2019.

d) Countercyclical Buffer and Capital Surcharge, starting from 1 January 2016.
c. Rural Bank

For the purpose of creating a RB industry that is sound, strong, and productive, it is necessary to make an adjustment to the capital structure so that it is in line with banking best practices. The provisions concerning RB MCAR are set as follows:

1) Any RB should provide minimum capital that is calculated by using the lowest MCAR ratio of 12% of RWA

2) RB capital comprises:
   a) Core capital (tier 1), which covers:
      (1) Main core capital;
      (2) Additional core capital; and
   b) Supplementary capital (tier 2)

3) Supplementary capital can only be taken into account no higher than 100% of core capital

4) A RB should provide core capital of no less than 8% of RWA

5) Additional and/or amendment of the provisions concerning:
   a) capital deposit fund;
   b) contributed capital;
   c) contributed capital in the form of other assets;
   d) borrowed capital to be additional core capital component;
   e) core capital reducing factors;
   f) additional capital deposits in the form of fixed assets;
   g) supplementary capital; and
   h) RWA

6) RB minimum core capital is set at Rp 6 billion

7) Stages for fulfilment
   a) A RB with a core capital less than Rp 3 billion should meet minimum core capital of Rp 3 billion no later than 31 December 2019. Furthermore, the RB should meet minimum core capital of Rp 6 billion no later than 31 December 2024.
b) A RB with a core capital of at least Rp 3 billion but less than Rp 6 billion should meet minimum core capital of Rp 6 billion no later than 31 December 2019.

8) Any RB is prohibited from distributing profits when:
   a) the said distribution will cause a lowering of core capital to less than Rp 6 billion; or
   b) the RB has not met minimum core capital of Rp 6 billion.

9) Any RB which has obtained a business license with paid-up capital of less than Rp 6 billion should meet minimum core capital amount no later than five years after obtaining the business license from OJK.

d. Sharia Rural Banks

For the purpose of creating a SRB industry that is sound, strong, and productive, it is necessary to make an adjustment to the capital structure so that it is in line with banking best practices. The adjustment to SRB capital structure is intended to step up SRB’s capacity to provide funds for the real sector, particularly for micro and small scale businesses.

1) Any SRB should provide minimum capital that is calculated by using the lowest MCAR ratio of 12% of RWA since 1 January 2020;

2) Capital comprises:
   a) Core capital (tier 1), which covers:
      (1) Main core capital, comprising paid-up capital and reserve for additional capital;
      (2) Additional core capital; and
   b) Supplementary capital (tier 2)
      Supplementary capital can only be taken into account no higher than 100% of core capital.

3) A SRB should provide core capital of no less than 8% of RWA since 1 January 2020; and
4) SRB minimum core capital is set at Rp 6 billion with several requirements.

e. Integrated Minimum Capital Adequacy Requirement For Financial Conglomerates

Financial Conglomerates should provide minimum capital and implement integrated capital management in a comprehensive and effective manner. Provision of integrated minimum capital should be performed by calculating integrated MCAR ratio which is set at no lower than 100% of Total Minimum Capital of the Financial Conglomerate (aggregate regulatory capital requirement).

The Main Entity should develop Integrated Capital Adequacy Report each semester for the positions of the end of the months of June and December which should be prepared for the first time for the position of December 2015.

f. Determination of Systemically Important Bank and Capital Surcharge

OJK determines banks that have systemic impact/Systemically Important Bank (SIB) and Capital Surcharge for any bank that has systemic impact. In determining banks that have systemic impact, OJK uses three indicators, namely bank size, interconnectedness with the financial system, complexity of business activities, including substitutability indicator on the role of a bank in activities of the payment system, and custodianship.

Based on determination of banks that have systemic impact, OJK determines the Capital Surcharge by classifying banks with systemic impact into five buckets, as follows

1) Bucket 1, the Capital Surcharge is set at 1% of RWA;
2) Bucket 2, the Capital Surcharge is set at 1.5% of RWA;
3) Bucket 3, the Capital Surcharge is set at 2% of RWA;
4) Bucket 4, the Capital Surcharge is set at 2.5% of RWA; and

5) Bucket 5, the Capital Surcharge is set at 3.5% of RWA.

Fulfilment of Capital Surcharge should be performed in stages starting from 1 January 2016 up to 1 January 2018.

3. Stipulation Concerning Maximum Legal Lending Limit
   a. Commercial Banks
      1) For parties that are not related to the bank
         Fund provision to one borrower that is not a related party is set at no higher than 20% of bank capital. Meanwhile, fund provision to one group of borrowers that is not a related party is set at no higher than 25% of bank capital;

      2) For parties that are related to the bank
         All fund provision portfolios to related parties of the bank are set at no higher than 10% of bank capital;

      3) A fund provision by a bank is categorized as having exceeded the Legal Lending Limit (BMPK) when it is caused by the following:
         a) a lowering of bank capital;
         b) a change in exchange rate;
         c) a change in fair value; and
         d) a business merger, a change in ownership structure, and/or a change in management structure that causes a change in related parties and/or borrower groups, and a change in regulations.

      4) On exceedances of BMPK and violations of BMPK, a bank should submit an action plan to OJK and shall be imposed with a sanction on bank soundness level.

   b. Rural Banks
      1) BMPK for credit is calculated based on credit debit balance.
BMPK for a interbank fund placement at another RB is calculated based on the nominal value of the interbank fund placement;

2) For parties that are not related with the RB
   Fund provisions to parties not related to the RB are set at no higher than 20% of RB capital. Meanwhile, fund provisions to a group of borrowers that is not a related party is set at no higher than 30% of RB capital. Fund provisions with the core-plasma partnership pattern or the pattern of Development of Bank Relationship with Self-Help Community Groups with requirements in accordance with stipulations are not included in the category of fund provisions to unrelated groups of borrowers;

3) For parties that are related to the RB, fund provisions to related parties are set at no higher than 10% of RB capital and those fund provisions should have the approvals of one director and one member of board of commissioners;

4) Placements at other RB, interbank fund placements at other RB that are not related parties are set at no higher than 20% of RB capital;

5) Fund provisions in the forms of credit fund provisions by a RB shall be considered exceeding the BMPK when they are caused by the following:
   a) Lowering of RB capital
   b) a business merger, a business amalgamation, a change in ownership structure, and/or a change in management that causes a change in related parties and/or borrower groups; and
   c) a change in regulations.

6) On exceedances of BMPK and violations of BMPK, a RB should submit an action plan to OJK and shall be imposed with a sanction on
RB soundness level as stipulated in prevailing regulation.

c. Sharia Rural Banks

1) Maximum Limit of Fund Channeling/Batas Maksimum Penyaluran Dana (BMPD) is a maximum percentage of realized fund channeling against SRB capital, which covers SRB financing and fund placements at other banks. Exceedances against BMPD is the positive difference between percentages of fund channeling at realization against SRB capital with the allowed BMPD.

2) Calculation of BMPD for Financing shall be differentiated between agreements used, as follows:
   a) In regard *murabahah*, *istishna’*, and *multijasa* financing, it is calculated based on the balance of principal price;
   b) In regard *salam* financing, it is calculated based on acquisition price;
   c) In regard *mudharabah*, *musyarakah*, and *qardh* financing, it is calculated based on debit balance; and
   d) In regard *ijarah* or *IMBT* financing, it is calculated based on the balance of acquisition price of *ijarah* or *IMBT* assets deducted by asset accumulated depreciation or amortization.

3) Calculation of other BMPD:
   a) In regard interbank fund placements in the form of savings, it is calculated based on the highest balance in the reporting month;
   b) In regard interbank fund placements in the form of deposits, it is calculated based on the nominal amounts as stated in all deposit drafts at the same SRB;
   c) In regard BMPD for fund channeling to individuals and/or all related parties, it is calculated 10% from RB capital;
d) In regard BMPD for fund channeling to individual customers who receive facilities and are not related parties, it is calculated 20% of RB capital;

4) In regard BMPD for fund channeling in the form of financing to one group of customers who receive facilities and are not related parties, it is calculated 30% of RB capital, with financing to respective customer who receives such facility not exceeding 20% of RB capital. Included in the definition of one group of customers who receive facilities are non-bank customers who receive facilities which have relationships in terms of management, ownership or finance with the bank as customers who receive facilities.

4. Asset Quality
   a. Commercial Bank Asset Quality
      Any bank, as a financial institution that performs the intermediation function, is required to present financial reports that are accurate, comprehensive, and reflect bank’s whole performance. One of the requirements related to the presentation of financial reports that are accurate and comprehensive is that the said financial reports should be presented in accordance with prevailing Financial Accounting Standards (FAS), particularly in the establishment of Reserve for Loss from Value Impairment/Cadangan Kerugian Penurunan Nilai (CKPN).

      In addition, for the purpose of maintaining business sustainability, banks should continue to maintain credit risk exposure at an adequate level, among others by maintaining asset quality and continuing to calculate PPA that will influence bank capital ratio. Calculation of PPA should be performed as follows:
      1) reserve should be calculated with impairment concept in the form of CKPN and should maintain the concept of PPA for prudential
purposes;
2) General and specific PPA should be calculated on earning assets, which should not be charged to profit and loss (P & L), instead it should only influence the calculation of MCAR. Results of the calculation of PPA for earning assets will influence the calculation of MCAR after being deducted from CKPN established; and
3) special PPA should be calculated on non-earning assets, which should not be charged to P & L, instead it should only influence the calculation of MCAR. Influence of PPA for non-earning assets in the calculation of MCAR does not take into consideration CKPN established, considering this is a disincentive in the case of banks that have non-earning assets.

b. Rural Bank Earning Asset Quality
RB have an important role in supporting the development of MSMBs. A RB should always observe sound credit principles in relation to credit channeling to MSMBs by yet observing the prudential principle. A RB should determine the same Earning Asset Quality on several accounts of Earning Assets that are used for financing one debtor at the same RB. The stipulation concerning Earning Asset Quality has been enhanced and aligned with FAS for Entities without Public Accountability for Rural Banks and RB Accounting Guidelines.
Any RB should determine the same Earning Asset Quality on several earning asset accounts that are used for financing one Debtor at the same RB. In the case there are differences in the Earning Asset Quality on several earning asset accounts for one Debtor at the same RB, the RB should determine the quality of each earning asset following the lowest earning asset quality.
Stipulations concerning credit restructuring are as follows:
1) a bank should charge losses arising from credit restructuring, after taking into account against excess Provision for Earning Asset Write-Off/Penyisihan Penghapusan Aktiva Produktif (PPAP) due to credit quality improvement after restructuring; and

2) excess earning asset PPAP due to quality improvement of restructured credit, after being taken into account against losses that arise from the said credit restructuring, may only be recognized as income if there have been receipts of three repayments on the restructured credit principal.

A RB should implement restructured credit accounting treatment, including but not limited to, recognition of losses that arise from credit restructuring, in accordance with FAS and the prevailing Accounting Guidelines for RB.

Stipulations related to Foreclosed Collaterals are as follows:

1) foreclosed collaterals should be accompanied by statement of collateral hand-overs or authorization letter to sell from the debtor, and a statement of having been fully repaid from the RB to the debtor;

2) the RB should make efforts to settle the foreclosed collaterals within a period of no longer than 1 year since the take over;

3) if within a period of 1 year, the RB cannot settle the Foreclosed Assets, values of the Foreclosed Assets recorded in RB balance sheet should be taken into account as RB core capital reducing factor in the calculation of MCAR;

4) in the event the Foreclosed Assets experience a decline in value due to revaluation, the RB should recognize the value decline as loss; and

5) in the event the Foreclosed Assets experience an increase in value due to revaluation, the RB may not recognize the rise in value as income.
c. Sharia Commercial Bank and Sharia Business Unit

Asset Quality

Any sharia bank, as a financial institution that performs the intermediation function, is required to present financial reports that are accurate, comprehensive, and reflect bank’s whole performance. One of the requirements related to the presentation of financial reports that are accurate and comprehensive is that the said financial reports should be presented in accordance with prevailing FAS.

1) Any bank should conduct fund placements and/or provisions based on prudential principle and Sharia Principles. For the purpose of implementing prudential principle, the Board of Directors should assess, monitor and take required measures so that asset quality remains good. Maintaining asset quality to remain good is performed by among others implementing effective credit risk management, including through the development of policies and guides in accordance with prevailing regulations.

2) Any bank should conduct assessment of the quality of Earning Assets and Non-Earning Assets. Earning Assets are bank fund placements, both in Rupiah as well as foreign currencies, to obtain revenue in the forms of financing, sharia securities, placements at BI and government, claims on sharia securities purchased for resell (reverse repurchase agreements), acceptance claims, derivative claims, participations, placements at other Banks, off-balance sheet account transactions, and other equivalent forms of fund provisions. Non-Earning Assets are bank’s assets other than Earning Assets that have loss potential, among others in the forms of foreclosed collaterals, abandoned properties, as well as inter-office accounts and suspense accounts.
3) A bank should determine the same quality on several accounts of Earning Assets that are used for financing one debtor at the same bank. Determination of quality also applies on Earning Assets in the forms of fund provisions or claims extended by more than one bank that are implemented based on joint and/or syndicated Financing agreements.

4) Asset quality is classified as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Type of Asset</th>
<th>Asset Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>C</td>
</tr>
<tr>
<td>1</td>
<td>Financing</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Placements at BI and government</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Sharia Securities</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Capital participations</td>
<td>✓</td>
</tr>
<tr>
<td>5</td>
<td>Temporary capital participations</td>
<td>✓</td>
</tr>
<tr>
<td>6</td>
<td>Placements at other banks</td>
<td>✓</td>
</tr>
<tr>
<td>7</td>
<td>Acceptance claims</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>a. Placements other banks</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>b. Financing</td>
<td>✓</td>
</tr>
<tr>
<td>8</td>
<td>Off balance sheet account transactions</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>a. Placements other banks</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>b. Financing</td>
<td>✓</td>
</tr>
<tr>
<td>9</td>
<td>Claims on Sharia Securities purchased under resell agreements (reverse repurchase agreements)</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>a. Placements other banks</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>b. Financing</td>
<td>✓</td>
</tr>
<tr>
<td>10</td>
<td>Derivative transactions</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>a. Placements other banks</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>b. Financing</td>
<td>✓</td>
</tr>
<tr>
<td>11</td>
<td>Foreclosed assets</td>
<td>✓</td>
</tr>
<tr>
<td>12</td>
<td>Abandoned properties</td>
<td>✓</td>
</tr>
<tr>
<td>13</td>
<td>Deferred accounts</td>
<td>✓</td>
</tr>
<tr>
<td>14</td>
<td>Inter-office accounts</td>
<td>✓</td>
</tr>
</tbody>
</table>

Note: C (Current), USM (Under Special Mention), SS (Sub Standard), D (Doubtful), and L (Loss)
d. Sharia Rural Bank Earning Asset Quality
   1) SRB fund placements and/or provision should be conducted based on prudential principle and Sharia Principles.
   2) Any SRB should assess, monitor, and take anticipative measures so that asset quality is always in Current condition.
   3) Any SRB should determine the same quality on several Earning Asset accounts used to finance one customer at the same SRB. In the event there are differences in earning asset quality for one customer at the same SRB, the SRB should apply the same quality for each earning asset following the lowest earning asset quality.
   4) Any SRB is prohibited from conducting fund placements in the form of deposits at CCB and/or in the form of savings and deposits at RB.
   5) A SRB may only conduct fund placements in CCB in the forms of giro/savings for the purpose of fund transfers for the interests of the SRB and its customers and these fund placements should be classified as Non-Earning Assets.
   6) Quality of SRB assets are classified as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Type of Asset</th>
<th>Asset Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Financing</td>
<td>√  √  √  √</td>
</tr>
<tr>
<td>2</td>
<td>Placements at other banks</td>
<td>√  √  -  -</td>
</tr>
<tr>
<td>3</td>
<td>Foreclosed collaterals</td>
<td>√  -  -  √</td>
</tr>
<tr>
<td>4</td>
<td>Placements at Conventional Commercial Banks</td>
<td>√  √  -  √</td>
</tr>
</tbody>
</table>

5. Provision for Asset Write Off
   a. Commercial Banks
      To cover loss risk on fund placements, a bank should establish PPA on Earning Assets and Non-Earning Assets in the forms of:
1) general provision and special provision for Earning Assets; and
2) special provision for Non-Earning Assets

In addition to calculating PPA, a bank should establish Reserve for Loss from Value Impairment (CKPN) in accordance with prevailing FAS. The amount of general provision is set at no less than 1% of Earning Assets that have Current quality, not including Certificates of BI, State Bonds/Surat Utang Negara (SUN) and Earning Assets guaranteed with cash collaterals. The amount of special provision for any CCB is set at minimum:

1) 5% of assets with the quality of Under Special Mention after being deducted with values of the collaterals;
2) 15% of assets with the quality of Sub-Standard after being deducted with values of the collaterals;
3) 50% of assets of the quality of Doubtful after being deducted with values of the collaterals; and
4) 100% of assets with the quality of Loss after being deducted with values of the collaterals.

In the case the collaterals are used to reduce PPA, assessment of the collaterals should be conducted at least by:

1) An independent appraiser for Earning Assets to debtors or groups of borrowers respectively amounting to > Rp5 billion;
2) A bank internal appraiser for Earning Assets to debtors or groups of borrowers respectively amounting up to Rp5 billion.

The said assessment on collaterals should be conducted since the beginning of the provision of Earning Assets. Collaterals that can be taken into account as reducing factor in the calculation of PPA comprises:

1) Securities and shares that are actively traded in the bourse in Indonesia or that have investment ratings and are bound by lien;
2) Lands, buildings and residential houses that are bound with mortgage right;
3) Machineries that are a unity with the lands and are bound with mortgage right;
4) Air planes or sea ships with the size of above 20 cubic meters that are bound with hipotek (mortgages);
5) Motor vehicles and inventories that are bound in fiduciary; and/or
6) Warehouse receipts that are bound with guarantee right on warehouse receipts.

Establishment of provisions applies to outstanding credit drawdown facilities, both committed as well as uncommitted, however, the provision established is only a special provision for outstanding credit draw down facilities that are of non-current quality.

Calculations of general and special PPA on Earning Assets and calculation of special PPA on Non-Earning Assets shall not be charged to profit and loss but will only influence the calculation of MCAR. Calculation of Earning PPA will influence the calculation of MCAR after being deducted from the established CKPN. Meanwhile, the influence of Non-Productive PPA in the calculation of MCAR ignores the established CKPN, considering this is a disincentive in the case of banks that have non-earning assets.

b. Sharia Commercial Banks and Sharia Business Units
Any bank is obliged to establish PPA on Earning Assets and Non-Earning Assets. PPA comprises general provision and special provision for Earning Assets and special provision for Non-Earning Assets. General PPA for Earning Assets is set to be no less than 1% of total Earning Assets classified as Current, not including Financing facilities that are not yet withdrawn that is part of Off-Balance Sheet Account transaction, Sharia Certificates of BI, Sharia State Securities, and/or other fund placements at BI and/or Government of Indonesia, part of Earning
Assets guaranteed with Government of Indonesia guarantees or cash collaterals and/or Ijarah Financing and IMBT Financing. The amount of special provision established is set to be the same as required for CB. The obligation to establish a general PPA is not applicable on Earning Assets for leasing transactions in the form of Ijarah agreements or leasing transactions with a transfer of ownership right in the form of IMBT agreements. Bank should establish depreciation/amortization for leasing transactions. Collaterals that can be taken into account as reducing factor in the establishment of PPA comprise:

1) Sharia securities and shares that are actively traded in the bourse in Indonesia or that have investment ratings and are bound by lien;
2) Lands, buildings and residential houses that are bound with mortgage right;
3) Machineries that are a unity with the lands and are bound with mortgate right;
4) Air planes or sea ships with the size of above 20 cubic meters that are bound with hipotek (mortgages);
5) Motor vehicles and inventories that are bound in fiduciary; and/or
6) Warehouse receipts that are bound with guarantee right on warehouse receipts.

c. Rural Bank Provision for Earning Asset Provision for Asset Write Off
Exemptions in the establishment of General Provision for Earning Asset Write-Off (PPAP) is for earning assets are in the forms of:

1) RB placements in Certificates of BI; and
2) Credits guaranteed with liquid collaterals such as Certificates of BI, bonds issued by Government of RI, savings and/or deposits blocked at the relevant RB supplemented with letters of authorization for disbursements and precious metals.
Expansion of the types and binding of collaterals to promote credit channeling to MSMBs and calculation of collateral values that are taken into account as reductions in the establishment of PPAP among others covers:

1) Gold jewelries;
2) Warehouse receipts;
3) Lands and/or buildings with proofs of ownership in the forms of surat girik (letter C) or equivalent documents including agreements of sales & purchases;
4) Business place/los/kios/lapak/right to use/right to cultivate; and
5) Part of funds that are guaranteed by State-Owned Business Enterprises (BUMN) / Regional Government-Owned Business Enterprises (BUMD) that conduct business as credit guarantors.

OJK has the authority to conduct recalculation or to not recognize collateral values that have been taken into account in the establishment of PPAP if the RB does not meet the regulation.

Any RB should establish PPAP comprising general PPAP and special PPAP. General PPAP is set at no less than 5 per mil of Earning Assets that have Current quality, not including RB placements in Certificates of BI and Credits guaranteed by collaterals that are liquid, in the forms of Certificates of BI, bonds issued by Government of RI, savings and/or deposits blocked at the relevant RB supplemented with letters of authorization for disbursements and precious metals.

Special PPAP is set at no less than:

1) 10% of Earning Assets of Sub-Standard quality after deducted with values of the collaterals;
2) 50% of Earning Assets with Doubtful quality after deducted with values of the collaterals;
3) 100% of Earning Assets of Loss quality after deducted with values of the collaterals.
Values of collaterals that can be taken into account as reducing factor in the establishment of PPAP are set at the highest:

1) 100% of collaterals that are liquid, in the forms of Certificates of BI, bonds issued by Government of RI, savings and/or deposits blocked at the RB concerned supplemented with letters of authorization for disbursements and precious metals;

2) 85% of market values for collaterals in the form of gold jewelries;

3) 80% of the values of mortgage right for collaterals in the forms of lands, buildings and/or residential houses that have certificates bound with mortgage rights;

4) 70% of the values of collaterals in the form of warehouse receipts which assessments have been performed less than or up the last 12 months and are in line with the Laws as well as prevailing regulations and procedures;

5) 60% of Tax Object Sale Value/Nilai Jual Obyek Pajak (NJOP) of collaterals in the forms of lands, buildings, and/or residential houses that have certificates bound with mortgage right;

6) 50% of NJOP for collaterals in the forms of lands and/or buildings with proofs of ownership in the form of Surat Girik (Letter C) or equivalent documents, including Agreements of Sales & Purchases drawn by notaries or other authorized officers supplemented with the last one year Tax Payable Notification Letters/Surat Pemberitahuan Pajak Terhutang (SPPT);

7) 50% of market price, leasing price or transfer price for collaterals in the forms of business place/kios/los/lapak/right to use/right to cultivate supplemented by proofs of ownership or permits to use issued by the legal managements or prepared by authorized officers;
8) 50\% of market value for collaterals in the forms of motor vehicles, ships or motorized boats supplemented with proofs of ownership and bound in accordance with prevailing regulations;

9) 50\% of values of the collaterals in the form of warehouse receipts which assessment have been conducted more than the last 12 months up to 18 months and are in line with the Laws as well as prevailing regulations and procedures;

10) 50\% of part of funds guaranteed by BUMN/BUMD that conduct business as credit guarantors;

11) 30\% of the market value for collaterals in the forms of motor vehicles, ships, or motorized boats that are supplemented by proofs of ownership and letters of authorization to sell made/legalized by notaries;

12) 30\% of values of the collaterals in the form of warehouse receipts which assessment have been conducted more than 18 months previously but have not exceeded 30 months previously and are in line with the Laws as well as prevailing regulations and procedures.

d. Sharia Rural Bank Provision for Asset Write-Off

Any SRB should establish PPA on Earning Assets and Non-Earning Assets. PPA for Earning Assets comprises general provision and special provision, while PPA for Non-Earning Assets is special provision. The amount of general provision at any SRB should be no less than 0.5\% of all Earning Assets of Current quality, not including Sharia Certificates of BI. The stipulation concerning the amount of special provision at any SRB is set to be the same as the stipulation concerning the amount of special provision at any RB. The obligation to establish PPAP does not apply on Earning Assets in the forms of *ijarah* or *IMBT*, but a SRB should
establish depreciation/amortization for *ijarah* or *IMBT*.

Collaterals that can be taken into account as reductions in the establishment of PPAP comprise:

1) Facilities guaranteed by the Indonesian government or Regional government or BUMN/BUMD;
2) cash collaterals: foreign currency bank notes, gold, savings and/or deposits blocked with letters of authorization for disbursements;
3) lands, buildings, residential houses that meet certain requirements;
4) warehouse receipts;
5) business places/los/kios managed by managing agencies; and
6) Motor vehicles and sea ships that meet certain requirements.

6. Implementation of Anti-Fraud Strategy For Commercial Banks

Any bank should have and implement anti-fraud strategy that is adjusted to the internal and external environments, business activity complexity, and potential, type, and risk of fraud as well as be supported by adequate human resources. Anti-fraud strategy constitutes part of strategic policies, which implementation is realized in a fraud control system. Banks, which have owned anti-fraud strategies but have not met the minimum references, should make adjustments to and enhance their anti-fraud strategies and should submit results of monitoring of anti-fraud strategy implementation to OJK.

For the purpose of controlling risk of the occurrence of fraud, any bank should implement risk management with strengthening in several aspects, covering at least Active Management Oversight, Organization Structure and Accountability, as well as Control and Monitoring. An anti-fraud strategy, which in implementation comprises a Fraud Control System, has four pillars as follows:
a. Prevention: containing instruments for the purpose of reducing the potential of the occurrence of fraud, which at least covers anti-fraud awareness, identification of vulnerabilities, and know your employee;

b. Detection: containing instruments for the purpose of identifying and finding events of fraud in bank business activities, which at least covers whistleblowing policy and mechanism, surprise audits, and surveillance system;

c. Investigations, Reporting, and Sanctions: containing instruments for the purpose of seeking information, reporting system, and imposition of sanctions on events of fraud in bank business activities, which at least covers investigation standard, reporting mechanism, and imposition of sanctions; and

d. Monitoring, Evaluation, and Follow Up: containing instruments for the purpose of monitoring and evaluating events of fraud as well as required follow ups based on results of evaluations, which at least covers monitoring and evaluation of events of fraud as well as follow up mechanism.

7. **Guide for Calculation of Risk Weighted Asset for Credit Risk by Using The Standard Approach**

This regulation constitutes an enhancement of the regulation concerning calculation of RWA so that calculation of MCAR more reflects risks that face a bank as well as be in line with internationally applicable standards.

a. Main provisions in credit risk covers credit risk due to the failures of debtors, counterparties (counterparty credit risk), and settlements (settlement risk);

b. Formula for calculation of RWA is Net Claim x Risk Weight;

c. Risk weight is set based on: (i) debtor or counterparty rating, in accordance with portfolio category; or (ii) certain percentage for certain type of claim;
d. Portfolio category covers: (i) claims to government; (ii) claims to public sector entities; (iii) claims to multilateral development banks and international institutions; (iv) claims to banks; (v) residential house-backed credits; (vi) commercial property-backed credits; (vii) employee or retiree credits; (viii) claims to micro scale businesses, small scale businesses, and retail portfolios; (ix) claims to corporations; (x) claims that have become due; and (xi) other assets;

e. Ratings used are the latest ratings issued by rating institutions acknowledged by OJK. Domestic ratings used for determination of the risk weight of claims in rupiah and international ratings are used to determine the risk weight of foreign currency claims. Claims in the form Securities use the ratings of the securities, while claims in forms other than securities use the ratings of the debtors; and

f. Credit Risk Mitigation (CRM) Technique that are acknowledged are: (i) CRM Technique – Collateral; (ii) CRM Technique-Warranty; and (iii) CRM Technique-Guarantee or Credit Insurance

8. Prudential Principle in Commercial Bank Capital Participation Activities

A bank may only conduct capital participations in companies that conduct business in the financial field. A SCB may only conduct capital participations in companies that conduct business in the financial field based on Sharia Principles. Meanwhile, a SBU and Branch Office of a bank domiciling overseas may only conduct Temporary Capital Participations. For each capital participation, a bank should obtain the approval of OJK. The total of all capital participation portfolios is set to be no higher than capital participations set in accordance with BUKU categorization, as stipulated in prevailing regulation concerning business activities and office networks based on bank core capital.

Any bank is prohibited from conducting capital participations exceeding fund provision limit referred
to in the prevailing regulation concerning Legal Lending Limit.

Any bank that is going to conduct a capital participation should at least meet the following requirements: (a) the plan for capital participation is already stated in the Bank Business Plan; (b) has a MCAR ratio in line with the risk profile as stipulated in the prevailing regulation concerning Bank MCAR; (c) has Soundness Level of the composite ratings 1 or 2 for 3 consecutive assessment periods or 4 consecutive assessment periods if the candidate Investee is a new company and/or a company domiciling overseas; (d) it will not disrupt bank’s business sustainability and will not raise bank’s risk profile significantly; (e) has written policies and procedures prepared by bank board of directors and approved by bank board of commissioners; and (f) has an adequate internal control system for capital participation activities.

In the event there is no regulation that governs MCAR in accordance with the risk profile for SCB, the ratio of MCAR is set at no smaller than 10%.

a. Capital Participation Divestment

The obligation for divesting a capital participation applies when: (1) Capital Participation causes or is projected to cause a lowering of bank capital and/or a rise in bank risk profile significantly; or (2) at the recommendation of the authority supervising a Subsidiary Company and/or instruction from OJK. Divestment of a capital participation at own initiative may be conducted with the requirements:

1) the divestment is intended as an adjustment to bank’s business strategy;
2) capital participation has been going on for 5 years;
3) is stated in Bank Business Plan;
4) the divestment is no smaller than 50% of the shares owned;
5) the divestment is conducted through an arm’s length transaction;
6) the divestment is not to obtain profits (capital gain); and
7) has received approval from OJK.

b. Capital participation by Bank’s Subsidiary Company
   In the case of a capital participation conducted by a Bank’s Subsidiary Company, the following should be ensured: (1) capital participation may only be conducted in a Company That Conducts Business in the Financial Field and/or in a company that supports financial services and in the form of shares; (2) the Subsidiary Company should apply adequate prudential principle and risk management; and (3) comply with regulations issued by the authority that supervises the Subsidiary Company.

c. Accounting Treatments, Management, Quality, and Transparency in Capital Participations and Temporary Capital Participations
   1) The accounting treatments shall refer to the prevailing FAS.
   2) The quality should refer to the prevailing regulation concerning assessment of bank asset quality.
   3) Bank should disclose the activity in the Annual Report by referring to prevailing regulation concerning transparency and publication of bank reports.
   4) Bank should implement risk management by referring to the prevailing regulation concerning implementation of risk management for CB or implementation of risk management for SCB and SBU.

d. Other Matters
   Based on certain considerations, OJK may instruct a bank to conduct divestment of a capital participation or reject the request for a capital participation or divestment at bank’s own initiative.

In outsourcing part of the implementation of works by a bank to other parties, the bank should implement prudential principle and risk management, as well as be responsible for the works outsourced to Service Provider Companies (SPC).

Outsourcing may only be conducted for support works, both in bank business activities as well as bank business support activities. The criteria of support works should at least covers being of low risk, not requiring high competency qualifications in the banking field, and not directly related to the decision making process that influences bank operations.

A bank may only undertake an outsourcing agreement with a SPC after the SPC meets at least the following requirements:

a. being an Indonesian legal entity in the form of Limited Liability Company or Cooperative;

b. having valid business license from an authorized institution in line with its business line;

c. having good financial performance and reputation as well as adequate experience;

d. having human resources for supporting the implementation of works outsourced; and

e. having facilities and infrastructure required for the outsourcing.

A number of works that do not fall in the scope of Outsourcing are among others:

a. transfer of works to bank Head Office or regional office domiciling overseas, parent company, and other entities within bank business group located domestically or overseas, as long as the transfer of works still comply with other prevailing regulations that govern specific activities/works, including the implementation of outsourcing, as well as observe the suitability and reasonableness of the said transfer of works.

b. transfer of consultancy service works or special expertise works, for example legal consultant services, notary services, independent appraiser services, and public accountant services; and
c. transfer of goods and buildings maintenance service works, such as maintenance of air conditioners, photocopiers, computers and printers as well as maintenance services of bank office buildings.

Prudential principle applicable in the transfer of credit collection work is among others:

a. credit collection scope in this regulation is general credit collection, including collection of credit without collaterals and credit card debts;

b. credits which collection can be transferred to other parties are credits of Loss quality in accordance with the prevailing regulation concerning assessment of CB asset quality;

c. cooperation agreements between bank and SPC should be undertaken in the form of agreements for the provision of manpower services; and

d. bank should have a policy for collection ethics in accordance with prevailing regulation.

Meanwhile, prudential principle applicable in transfer of cash management works is among others as follows:

a. bank may only undertake outsourcing agreements with SPC that meet the requirements of prevailing regulation; and

b. outsourcing conducted by bank can be discontinued if that outsourcing has the potential of endangering bank’s business sustainability.

10. Prudential Principle in Asset Securitization Activities for Commercial Banks

Financial assets that are transferred for the purpose of Asset Securitization should be financial assets that comprise of credits, claims arising from securities, claims arising in the future (future receivables) and other equivalent financial assets. Asset securitization should meet the criteria: having cash flows, owned and under the control of Original Creditors; and can be freely transferred to issuers. In Asset Securitization, a bank may function as: Original Creditor, Provider of Supporting Credits, Provider of Liquidity Facilities, Provider of Services, Custodian Bank, or Investor.
11. Prudential Principle in the Conduct of Structured Product Activities for Commercial Banks

Structured Products are bank products that are combinations of two or more financial instruments that are non-derivative and derivative financial instruments or derivative and derivative financial instruments and at least have the following characteristics:

a. the cash values or flows arising from the products are linked to one or a combination of basic variables, such as interest rate, exchange rate, commodities and/or equities; and

b. The pattern of changes on the cash values or flows of the products is not regular compared to the pattern of changes of the basic variables as referred to in letter a. As such, the changes of those cash values or flows do not reflect overall changes in the basic variables linearly (asymmetric payoff), which are marked among others by the existence of Optionality (caps, floors, collars, step up/step down and/or call/put features); Leverage; Barriers (knock in/knock out); and/or Binary (digital ranges).

Definition of the above-mentioned derivatives covers embedded derivatives.

Structured product activities are activities and/or processes that are conducted in relation to the planning, development, issuances, marketing, offerings, sales, operational implementation, and/or discontinuation of activities related to structured products.

Banks may only conduct structured product activities after having obtained approval in principle and statement of effectiveness for the issuance of each type of structured product from OJK.

Any foreign currency CB may only conduct structured product transactions that are linked to basic variables in the form of exchange rate and/or interest rate.

Any non-foreign currency CB may only conduct structured product transactions that are linked to basic variable in the form of interest rate. Bank should state
the plan for structured products activities in Bank Business Plan. Bank should implement effective risk management in conducting structured product activities. Any bank is prohibited from using the words “deposit”, “term deposit”, “protected”, “giro”, “savings”, and/or other words that may give the perception to the customers that the bank provides protection on the return of structured product principals in full, in the event the structured products issued by the bank are not supplemented with full protection on the principals in original currencies at the time they become due.


A bank may only conduct agency activities for foreign financial products after having obtained approval in principle from OJK. To become an agent of foreign share investment instruments, in addition to meeting the requirement of approval in principle from OJK, the bank should also meet the requirement as an agent of foreign share investment instruments in accordance with the stipulation set by OJK. Any bank is prohibited from acting as a sub agent in conducting agency activities for foreign financial products. Foreign financial products for which banks in Indonesia may act as agents should at least meet the following requirements:

a. have been registered and/or met the stipulations of the authorized authorities in the original countries of the issuers; and
b. have been reported by bank to OJK.

In addition to meeting the requirements mentioned above, foreign financial products in the form of investment instruments other than shares, for which banks may act as selling agents, should be in the form of Structured Products and meet the following requirements:

a. Issued by overseas banks that have branch offices in Indonesia;
b. Are linked to basic variables such as exchange rate and/or interest rate; and

c. Are not a combination of various instruments with foreign currency against rupiah derivative transactions for the purpose of yield enhancement that are of speculative nature.

Financial products are not included in Government guarantee program because they are not in the form of savings in banks.

13. Implementation of Good Corporate Governance

a. Commercial Banks

Assessment of bank GCG implementation shall be conducted at individual level as well as in consolidation level. The ratings of GCG factor are set in five ratings, namely Rating 1, Rating 2, Rating 3, Rating 4, and Rating 5. Smaller GCG factor rating reflects better GCG implementation, and any bank that receives GCG Ratings 3, 4 or 5 should submit action plans.

A bank conducts assessment of GCG by developing analysis of the adequacy and effectiveness of GCG principle implementation performed in a comprehensive and structured manner on three aspects of governance, namely governance structure, governance process and governance outcome.

The following explanation is given in relation to Independent Commissioners and Non-Independent Commissioners:

1) A Non-Independent Commissioner may transfer into an Independent Commissioner with the conditions:
   a) has met the requirements as Independent Commissioner;
   b) should undergo a cooling off period of no less than six months; and
   c) should obtain approval from OJK.

2) A stipulation to clarify the requirements for the transfer from Non-Independent Commissioner to an Independent Commissioner as well as
gives an opportunity to a Non-Independent Commissioner to become Independent Commissioner by still observing certain conditions to maintain the independency.

3) An Independent Commissioner who has held office for two consecutive periods may be reappointed as an Independent Commissioner for the next period as long as the Board of Commissioner Meeting assesses that the person concerned can still act independently as well as the person concerned states in the SGM his/her independence.

4) This stipulation is intended to enable the maintainance of the independence of an Independent Commissioner although the person concerned has held office for quite a long time.

5) Confirmation that the Independent Commissioner has attended the Board of Commissioner Meetings physically for no less than two times in a year.

Any bank is oblige to submit and publicize report on implementation of GCG no later than four months after the end of the accounting year, so that it is in line with the publication deadline for the annual report in line with the regulation concerning transparency and publication of bank reports. Distribution of report on implementation of GCG in hardcopies to several parties such as Indonesian Consumer Institution, Indonesian Banking Development Institution, and Rating Institutions are not obligatory, considering the report is already available online at bank’s website and so that it is in line with the regulation concerning transparency and publication of bank reports.

There is an amendment to the obligation to conduct self-assessment of GCG implementation, which should be conducted no less than two times in a year, so that it is in line with the regulation concerning assessment of commercial bank
soundness level.

b. Sharia Commercial Banks and Sharia Business Units
Implementation of GCG for SCB should be realized at least in the implementation of the tasks and responsibilities of board of commissioners and board of directors; completeness and implementation of the tasks of committees and function that performs the SCB internal control; implementation of the tasks and responsibilities of sharia supervisory board; implementations of the compliance, internal audit and external audit functions, maximum limit in fund channeling; and transparency in SCB financial and non-financial conditions.

Implementation of GCG for SBU should be realized at least in: implementation of the tasks and responsibilities of SBU director; implementation of the tasks and responsibilities of sharia supervisory board; fund channeling to core financing customers and fund deposits by core depositors; and transparency in SBU financial and non-financial conditions.

c. Rural Banks
With the expansion of RB services along with increase in business volume, any RB risks also increase and as such prompt the need for implementation of GCG by RB.

1) Any RB should implement GCG implementation factor in each of its business activities and should be realized in the following forms:
   a) Implementation of the tasks and responsibilities of board of directors;
   b) Implementation of the tasks and responsibilities of board of commissioners;
   c) Completeness and implementation of the tasks or functions of committees;
   d) Handling of conflicts of interest;
   e) Implementation of the compliance, internal audit, and external audit functions;
f) Implementation of risk management, including internal control system;
g) Maximum limit of credit extensions;
h) RB business plan; and
i) Transparency of financial and non-financial conditions.

2) OJK shall perform assessment on implementation of GCG by RB;

3) Number of directors:
   a) Any RB with core capital of no less than Rp50 billion should have no less than three members of board of directors; and
   b) Any RB with core capital of less than Rp50 billion should have no less than two members of board of directors.

4) Board of Directors of a RB with core capital of no less than Rp50 billion should establish:
   a) Internal Audit Work Unit/Satuan Kerja Audit Intern (SKAI)
   b) Risk management work unit and risk management committee; and
   c) Compliance work unit.

5) Board of Directors of a RB with core capital of less than Rp50 billion should appoint executive officers who perform:
   a) Internal audit function
   b) Risk management function; and
   c) Compliance function

6) Number of members of board of commissioners:
   a) Any RB with core capital of more than Rp50 billion should have members of board of commissioners of at least three persons and no more than the number of members of board of directors; and
   b) Any RB with core capital of less than Rp50 billion should have members of board of commissioners of at least two persons and no more than the number of members of board of directors
7) Number of independent commissioners:
   a) Any RB with core capital of more than Rp80 billion should have independent commissioners of at least 50% of the number of members of board of commissioners; and
   b) Any RB with core capital of less than Rp80 billion should have no less than one independent commissioner.
8) Ex members of RB board of directors or executive officers or parties that have relationships with the RB, which capacity to act independently can be influenced, cannot become independent commissioners at the concerned RB before undergoing a cooling off period of one year.
9) Board of commissioners at an RB with core capital of no less than Rp80 billion should establish at least:
   a) Audit committee; and
   b) Risk monitoring committee
10) Implementation of the compliance function in RB organization structure is divided into:
   a) A RB with core capital of more than Rp50 billion should establish compliance work unit that is independent of the operational work units; and
   b) A RB with core capital of less than Rp50 billion should appoint an executive officer who is independent of the operational work units for implementing the compliance function.
11) Implementation of the internal audit function for the organization structure of:
   a) Any RB with core capital of more than Rp50 billion should establish the SKAI; and
   b) Any RB with core capital of less than Rp50 billion should appoint one executive officer who is responsible for the implementation of the internal audit function.
12) Reports related to RB implementation of GCG are:
   a) Report on main points of the implementation of the tasks of member of board of director in charge of the compliance function;
   b) Special report on board of directors’ policies/decisions that deviate from stipulations;
   c) Report on appointments and dismissals of head of SKAI or executive officer in charge of implementation of the internal audit function;
   d) Report on the implementation and main findings of internal audit, including information on audit results that are confidential;
   e) Special report on each internal audit finding that is projected to be able to disrupt the RB’s business sustainability;
   f) Report on results of reviews by an external party for any RB with core capital of more than Rp50 billion; and
   g) Report on implementation of GCG.

d. Implementation of Integrated GCG for Financial Conglomerates
   Any Financial Conglomerate needs to implement good, overall GCG so that the Financial Conglomerate can enhance performance, protect stakeholders’ interest, and step up compliance to the provisions of prevailing legislations as well as generally applicable ethical values.
   In the implementation of GCG there is a need for a guide for Integrated GCG which will be the reference for all FSI within the Financial Conglomerate so that GCG implementation quality within the Financial Conglomerate can be enhanced.

Main provisions
1) Any Financial Conglomerate should implement
Integrated GCG which implementation is performed by the Main Entity;

2) For this purpose, the Main Entity should have at least: (i) Main Entity board of commissioners; (ii) Main Entity board of directors; (iii) integrated GCG committee; (iv) integrated compliance work unit; (v) integrated internal audit work unit; and (vi) guide for integrated GCG.

3) The Main Entity board of directors has the tasks and responsibilities of among others ensuring implementation of integrated GCG within the Financial Conglomerate and developing a guide for integrated GCG.

4) The Main Entity Board of Commissioners has the tasks and responsibilities of among others performing oversight over GCG implementation at each FSI so that it is in line with the guide for integrated GCG.

5) Implementation of the tasks and responsibilities of the Main Entity board of directors and/or board of commissioners do not take into account the holding of concurrent positions (ex-officio).

6) The integrated GCG Committee has the tasks and responsibilities of among others performing evaluation of the Integrated GCG implementation through at least assessment on the adequacy of internal control and implementation of the compliance function in an integrated manner.

7) Membership of the Integrated GCG Committee at least comprises:
   a) An independent commissioner, who acts as chairman in one of the committees at the Main Entity, as chairman as well as member;
   b) Independent commissioners representing and are appointed from FSI within the Financial Conglomerate, as members;
c) An independent party as member; and
d) Members of Sharia Supervisory Board from FSI within the Financial Conglomerate, as members.

Memberships of independent commissioners, independent parties, and members of Sharia Supervisory Board in the Integrated GCG Committee in the Financial Conglomerate are not considered as holding concurrent positions.

8) Integrated Compliance Work Unit has the tasks of at least monitoring and evaluating implementation of the compliance function at each FSI within the Financial Conglomerate.

9) Integrated Internal Audit Work Unit has the tasks of at least monitoring implementation of internal audit at each FSI within the Financial Conglomerate.

10) Guide for Integrated GCG should contain at least:

   a) Requirements to become candidate members of board of directors, candidate members of board of commissioners, and members of Sharia Supervisory Board;

   b) Structure of board of directors, board of commissioners; and Sharia Supervisory Board;

   c) Independent actions of board of commissioners;

   d) Implementation of FSI management function by board of directors;

   e) Implementation of the oversight function of board of commissioners and Sharia Supervisory Board;

   f) Implementation of the compliance function, internal audit function, and external audit implementation;

   g) Implementation of risk management function;

   h) Remuneration policy; and
i) Handling of conflicts of interest.

11) A Financial Conglomerate, which Main Entity is a Branch Office of an entity domiciling overseas, should meet the regulation concerning integrated GCG.

12) The Main Entity should develop report on assessment of integrated GCG implementation each semester for the positions of end of June and December, and should be submitted no later than the 15th of the second month after the end of the relevant reporting month.

13) The Main Entity should develop an annual report on integrated GCG implementation which should be submitted no later than five months since the end of the accounting year.

14) Obligation to submit the report on assessment of integrated GCG implementation for the first time should be performed for report position as follows:
   a) June 2015, for any Main Entity that is categorized as BUKU 4;
   b) December 2015, for any Main Entity that is a non-BUKU 4 bank and non-bank.

15) Imposition of sanctions shall start from:
   a) 1 January 2017, for any Main Entity that is categorized as BUKU 4
   b) 1 January 2018, for any Main Entity that is non-BUKU 4 bank and non-bank.

e. Implementation of GCG in Provision of Remunerations for Commercial Banks

In order to strengthen bank GCG, remunerations for members of board of directors, members of board of commissioners, and other parties that are considered to have significant influence on bank risk profile need to be linked to the risks taken. Unsound remuneration practices are considered to be one of the factors that contributed to the world economic crisis in 2007. This caused leaders of the G-20 member countries to declare the need for a
reformation in remuneration practices in the financial sector in order to strengthen bank capital and liquidity.

Indonesia, as one of G-20 members, has the commitment to adopt the Principles for Sound Compensation Practices, which have the objective of among others to prevent excessive risk taking behavior by decision makers in a bank in order to run after short term targets by ignoring risks that will arise in the future. In addition, this matter has been included in Basel II implementation, particularly Pillar 3 (market discipline), in which any bank is demanded to disclose information concerning remunerations in a more transparent manner to the public and market actors.

Main provisions:

1) Bank should implement GCG in the provision of remunerations to members of board of directors, members of board of commissioners, and bank employees.
   Implementation of the said GCG shall cover at least:
   a) the tasks and responsibilities of board of directors and board of commissioners;
   b) the tasks and responsibilities of the Remuneration Committee;
   c) implementation of prudential principle in the provision of remunerations;
   d) disclosure of remunerations;

2) Implementation of prudential principle in the provision of Remunerations:
   a) Fixed Remunerations;
      (1) Remunerations that are not linked to performances and risks, such as among others basic salaries, facilities, housing allowance, health allowance, education allowance, holiday allowance, and pensions.
      (2) Should at least observe business scale, business complexity, peer group,
inflation rate, financial condition and capacity, as well as should not be in conflict with prevailing legislations.

b) Variable Remunerations;
(1) Remunerations are linked to performances and risks, among others in the forms of bonus or other equivalent forms.
(2) In addition to observing requirements for Fixed Remunerations, should also promote prudent risk taking.
(3) Are given in the forms of cash and/or shares or share-based instruments issued by the bank.
(4) Go Public Banks should award remunerations in the forms of cash and shares/share-based instruments issued by the concerned Bank.
(5) In the event the Bank experiences losses, the Bank is allowed not to distribute variable remunerations or may distribute them in relatively small values.

c) Material Risk Takers (MRT)
(1) a Bank should determine parties who are MRT, which meet the following criteria:
(a) members of board of directors and/or other employees, who due to their tasks and responsibilities, make decisions which have significant impacts on bank risk profile; and
(b) members of board of directors, members of board of commissioners and/or Employees who receive variable remunerations in large values.
(2) any Bank should postpone variable remuneration payments to parties who
are classified as MRT in certain percentages, sizes of the percentages are in line with the levels of the positions. The postponement period should be minimum three years and may be adjusted to be longer in line with the time horizon of risks.

(3) a Bank may postpone payments of deferred Variable Remunerations (malus) or drawback variable remunerations that have been paid to parties who become MRT under certain conditions.

3) Enforcement of the stipulation:
   a) 1 January 2016 for Foreign Banks, BUKU 3, and BUKU 4 banks;
   b) 1 January 2017 for BUKU 1 and BUKU 2 banks which are not Foreign Banks.

4) Imposition of sanctions
   a) 1 January 2019, for Foreign Banks, BUKU 3 and BUKU 4 banks; and
   b) 1 January 2020, for BUKU 1 and BUKU 2 banks which are not Foreign Banks.

f. Implementation of Good Corporate Governance in the Provision of Remunerations for Sharia Commercial Banks and Sharia Business Units. This OJK Regulation is an enhancement of the stipulations related to remunerations contained in BI Regulation Number 11/33/PBI/2009 concerning Implementation of Good Corporate Governance For Sharia Commercial Banks and Sharia Business Units and as such does not revoke the BI Regulation in its entirety. This OJK Regulation on Remunerations for SCBs and SBUs aims to promote prudent risk taking, information transparency, and suitability with sharia principles in the provision of remunerations.

The difference between OJK Regulation concerning SCB and SBU Remunerations and OJK Regulation concerning CCB Remunerations lies in the
provisions concerning implementation of sharia principles and remunerations for Sharia Supervisory Board/SSB (Dewan Pengawas Syariah/DPS). This OJK Regulation stipulates provisions concerning good governance in the provision of remunerations for members of SCB Board of Directors, members of SCB Board of Commissioners, SCB employees, as well as as members of SCB and SBU SSB. Implementation of the said good governance in this OJK Regulation covers the tasks and responsibilities of the Board of Directors, Board of Commissioners, and Remuneration committee, application of prudential principle in the provision of remunerations, application of sharia principles in the provision of remunerations, as well as disclosure of remunerations.

Banks are obliged to observe the prudential principle in the provision of remunerations, covering Fixed Remunerations as well as Variable Remunerations.

Policy on Fixed Remuneration observes business scale, business complexity, peer group, inflation rate, financial condition and capacity, as well as compliance with the provisions of legislations and Remuneration gaps between levels of positions. Fixed remunerations can be given in the forms of cash and/or shares or instruments based on shared issued by the Bank. Meanwhile, Variable Remunerations should observe business scale, business complexity, peer group, inflation rate, financial condition and capacity, as well as compliance with the provisions of legislations, promote prudent risk taking and take into consideration the performance of the Board of Directors/Board of Commissioners/SSB/Employees, performance of business units, and Bank performance, as well as risks. Unlike the case of Fixed Remuneration, Variable Remuneration can be given in the forms
of cash and/or shares or instruments based on shares issued by the Bank. However, in the case of any go-public Bank, provision of Variable Remuneration in the forms of shares or instruments based on shares issued by the Bank should be of a certain percentage of the Variable Remunerations.

Banks are required to establish parties that are to be the material risk takers. Material risk takers are parties who at least meet the following criteria, namely members of the Board of Directors and/or Employees who due to their duties and responsibilities make decisions that have significant impacts on the risk profile of the Bank, or members of the Board of Directors, members of the Board of Commissioners and/or Employees who receive Variable Remunerations of large amounts. When certain conditions occur, such as the Bank suffering losses, there is a risk that may negatively impact the Bank’s finances, or such as a fraud occurring due to a material risk taker that causes losses to the Bank, the Bank may apply Malus and/or Clawback to the parties that are the material risk takers.

Banks are required to disclose Remuneration policy information in the report on implementation of governance as stipulated in the provisions of legislations regarding the implementation of good corporate governance for sharia commercial banks and sharia business units. This OJK Regulation is effective as of January 1, 2018 for BOOK 3 and BOOK 4 Banks and as of January 1, 2019 for BUKU 1 and BUKU 2 Banks, while application of the sanctions set in this OJK Regulation shall come into force as of January 1, 2019 for BOOK 3 and BOOK 4 Banks and as of January 1, 2020 for BOOK 1 and BOOK 2 Banks.

g. Commercial Bank Internal Audit Work Unit

Any CB should establish an SKAI as part of the implementation of Bank Internal Audit Function
Implementation Standards. The SKAI is the work unit that is directly responsible to the President Director. The SKAI has the tasks and responsibilities to:

1) assist the tasks of the president director and board of commissioners in performing oversight by operationalizing them into planning, implementation as well as monitoring of audit results;

2) perform analyses and assessments in the fields of finance, accounting, operation, and other activities through direct audit and indirect supervision;

3) identify all possibilities for improving and enhancing efficiency in the uses of human resources and funds; and

4) provide objective recommendations for improvements and information on activities audited at all levels of management.


Board of directors should nurture and realize the compliance culture at all levels of the organization and bank business activities and should ensure implementation of the bank compliance function. Bank compliance function includes measures to:

a. realize implementation of the compliance culture at all levels of the organization and bank business activities;

b. manage compliance risk that faces the bank;

c. ensure that policies, stipulations, systems and procedures developed by, as well as business activities performed by the bank are already in line with prevailing regulations and legislations, including Sharia Principles for SCB and SBU; and

d. ensure bank’s compliance to commitments made by the bank to OJK and/or other authorized supervisory authorities.

Bank should have a director who supervises the compliance function and establish the compliance work unit. The director supervising the compliance
function and the compliance work unit at a SCB and/or CCB that has a SBU should coordinate with the Sharia Supervisory Board in relation to implementation of compliance to Sharia Principles. The director supervising the compliance function should meet the independence requirement. The president director and/or vice president director are prohibited from holding concurrent position as the director that supervises the compliance function. The director supervising the compliance function is prohibited from supervising business and operational functions; risk management that makes decisions on bank business activities; treasury; finance and accounting; logistics and procurements of goods/services; IT, and internal audit.

15. Implementation of Risk Management for Commercial Banks, Rural Banks, and Financial Conglomerates

a. Conventional Commercial Banks

A CCB should implement effective risk management, both at bank individual level as well as bank in consolidation with subsidiary companies. This risk management implementation should cover at least:

1) Active oversight by board of commissioners and board of directors;
2) Adequate policies, procedures, and limit setting;
3) Adequate risk identification, measuring, monitoring, and control processes as well as risk management information system; and
4) Overall internal control system.

A CCB should implement risk Management for eight types of risks, namely: credit risk, market risk, liquidity risk, operational risk, legal risk, reputation risk, strategic risk, and compliance risk.

In performing risk profile analysis, bank should refer to the prevailing regulation concerning assessment of the soundness level of CB and bank should submit the Risk Profile Reports at individual
level as well as at consolidation level quarterly, namely for the positions of the months of March, June, and September.

In addition to the Risk Profile Reports, a bank should submit several reports related to Risk Management implementation as follows:

1) Report on New Products and Activities;
2) Other reports at the occurrences of conditions that have the potential to cause significant losses to bank financial condition;
3) Other reports related to Risk Management implementation, such as among others Risk Management report for liquidity risk;
4) Other reports related to issuance of certain products or execution of certain activities, such as among others report on activities related to mutual funds; and
5) Report on implementation of marketing cooperation with insurance companies (Bancassurance).

In the implementation of risk management process and system, bank should establish:

1) Risk Management Committee, which at least comprises majority of the directors and related executive officers; and
2) Risk Management Work Unit, which is independent and directly responsible to the president director or a director who is specifically tasked.

Bank should also have written policies and procedures for managing risks inherent in bank’s new products and activities.

b. Sharia Commercial Banks and Sharia Business Units

1) A Bank should implement effective Risk Management;
2) Implementation of Risk Management for SCB should be performed at individual level as well as in consolidation with subsidiary companies;
3) Risk Management for SBU should be implemented on all SBU business activities,
which is a unity with the Risk Management implementation at the CCB;

4) Implementation of Risk Management should cover at least:
   a) Active oversight by board of directors, board of commissioners and sharia supervisory board;
   b) Adequate Risk Management policies and procedures as well as Risk limit setting;
   c) Adequate Risk identification, measuring, monitoring, and control processes as well as Risk Management information system; and
   d) Overall internal control system.

5) Bank should implement Risk Management on the following types of Risks:
   a) Credit risk;
   b) Market risk;
   c) Liquidity risk;
   d) Operational risk;
   e) Legal risk;
   f) Reputation risk;
   g) Strategic risk;
   h) Compliance risk;
   i) Rate of return risk; and
   j) Investment risk (equity investment risk).

c. Rural Banks

The more complex RB products and activities are the higher the risks that face RB. This condition requires risk management implementation by RB.

1) any RB should implement Risk Management which includes at least:
   a) oversight by board of directors and board of commissioners
   b) adequate policies, procedures, and limits, namely:
      (1) risk management policies;
      (2) risk management procedures; and
      (3) risk limit setting.
   c) Adequacy of processes and systems,
namely:
(1) risk identification, measuring, monitoring, and control processes; and
(2) risk management information system.

d) Overall internal control system.

2) Types of risks that should be managed by RB include:
   a) credit risk
   b) operational risk
   c) compliance risk
   d) liquidity risk
   e) reputation risk; and
   f) strategic risk

3) Risk management implementation is divided based on RB core capital, namely:
   a) any RB with core capital of more than Rp 50 billion should implement risk management for all risks;
   b) any RB with core capital of more than Rp 15 billion but less than Rp 50 billion should implement risk management for four types of risks, namely credit risk, operational risk, compliance risk, liquidity risk; and
   c) any RB with core capital of less than Rp 15 billion should implement risk management for three types of risk, namely credit risk, operational risk, and compliance risk.

4) The organization structure in risk management implementation is divided based on core capital as follows:
   a) any RB with core capital of more than Rp 80 billion should establish:
      (1) risk management committee; and
      (2) risk management work unit
   b) any RB with core capital of more than Rp 50 billion but less than Rp 80 billion should establish risk management work unit;
   c) any RB with core capital of less than Rp 50 billion should appoint one executive officer
to be in charge of risk management implementation

5) For the purpose of managing risks inherent in issuances of new products and/or conducts of new activities, a RB should have written policies and procedures. Criteria of new products and activities are:
   a) has not been issued or conducted previously by the RB; or
   b) has been issued or conducted previously by the RB but development has changed or enhanced all risks or certain risks of the RB.

6) Reports related to risk management implementation are:
   a) report on action plan for risk management implementation;
   b) risk profile report;
   c) report on new products and activities; and
   d) other risk profile reports

OJK will perform assessment on risk management implementation at RB and OJK may make adjustment to the Risk Management implementation assessment.

d. Financial Conglomerates

Financial industry is an industry that has high business complexity and competition level and as such is exposed to high risks and should operate prudentially and efficiently. In facing such condition, any FSI should pay attention to all risks, which directly as well as indirectly may influence the FSI's business sustainability, originating from subsidiary companies, related companies (sister companies), and other entities that belong in one Financial Conglomerate.

For the purpose of more overall risk management, any Financial Conglomerate should implement integrated risk management. Through integrated risk management implementation, the Financial Conglomerate will get benefits, such as better risk management, determination of risk appetite and
risk tolerance that are in line with the Financial Conglomerate’s business complexity and characteristic, which in turn will produce synergy as well as enhance the Financial Conglomerate’s business capacity and capital. In addition, implementation of Integrated Risk Management at the Financial Conglomerate is expected to be one of the vehicles for contributing to the realization of financial system stability, which grows sustainably and therefore be able to enhance national competitiveness.

Main provisions:
1) Any Financial Conglomerate should implement Integrated Risk Management in a comprehensive and effective manner as stipulated in OJK Regulation Number 17/POJK.03/2014.
2) A Financial Conglomerate’s structure comprises: (a) Main Entity; (b) subsidiary companies and/or (c) related companies along with their subsidiary companies.
3) Types of FSI in a Financial Conglomerate include: (a) banks; (b) insurance and re-insurance companies; (c) security companies; and/or (d) financing companies.
4) A Financial Conglomerate should have a Main Entity, namely a FSI which integrates Risk Management implementation at the Financial Conglomerate.
5) In the event the Financial Conglomerate’s structure comprises of parent FSI and subsidiary FSI, the Main Entity is the parent FSI.
6) In the event the Financial Conglomerate’s structure does not only comprise Parent FSI and Subsidiary FSI (there are related companies), the Controlling Shareholder of the Financial Conglomerate should appoint the Main Entity. The party appointed as the Main Entity is the FSI that has the largest total assets and/or owns good Risk Management
Implementation of Integrated Risk Management covers at least:

a) Active oversight by board of directors and board of commissioners of the Main Entity;

b) Adequate integrated risk management policies, procedures, and limit setting;

c) Adequate integrated risk identification, measuring, monitoring, and control processes as well as integrated risk management information system;

d) Overall internal control system on integrated risk management implementation.

Types of risks that should be managed in integrated risk management cover: (a) credit risk; (b) market risk; (c) liquidity risk; (d) operational risk; (e) legal risk; (f) reputation risk; (g) strategic risk; (h) compliance risk; (i) intra-group transaction risk and (j) insurance risk. A Financial Conglomerate that does not own an insurance and/or re-insurance company has no obligation to manage insurance risk.

The Main Entity should appoint the Main Entity director, who supervises the risk management function, to become the director who supervises the integrated risk management function.

For the purpose of implementing integrated risk management in a comprehensive and effective manner, the Main Entity should establish: (a) Integrated Risk Management Committee/Komite Manajemen Risiko Terintegrasi (KMRT); and (b) Integrated Risk Management Work Unit/ Satuan Kerja Manajemen Risiko Terintegrasi (SKMRT).

The Main Entity should submit the following reports:

a) Report on FSI that is appointed to be the Main Entity and FSI that are the members
of the Financial Conglomerate to OJK no later than 31 March 2015.

b) Reports in the event there is:
   (1) A new financial conglomerate together with the appointment of the Main Entity;
   (2) A change in Main Entity;
   (3) A change in members of the financial conglomerate; and/or
   (4) A dissolution of the financial conglomerate.
   No later than 20 working days after the referred conditions occur.

c) Integrated risk profile report periodically for the positions of end of June and December, submitted no later than the 15th of the second month after the end of the relevant reporting month.

12) The obligation to submit integrated risk profile report for the first time should be met for the following report positions:
   a) June 2015, for lead entities that are categorized as BUKU 4;
   b) December 2015, for lead entities that are non-BUKU 4 bank and non-bank.

13) There are two types of sanctions in this OJK Regulation, namely administrative sanction and sanction of payment penalty specific for late reporting.

14) Imposition of administrative sanction, will specifically be effective starting:
   a) January 2017, for lead entities that are categorized as BUKU 4;
   b) January 2018, for lead entities that are non-BUKU 4 bank and non-bank

16. Implementation of Risk Management In The Use of Information Technology By Commercial Banks

For the purpose of minimizing the occurrence of risk related to the use of Information Technology and protecting the interests of a Bank and its customers, the
Bank should implement Information Technology risk management effectively and GCG. This implementation should be made among others by aligning Information Technology Strategic Plan with Bank’s business strategy.

Effective risk management that the Bank should implement shall cover at least:

a. active oversight by board of directors and board of commissioners;

b. adequate policies, standards, and procedures for the use of IT;

c. adequate risk identification, measuring, monitoring, and control processes as well as risk control in the use of IT; and

d. internal control system on the use of IT.

Policies, standards, and procedures for the use of IT should at least include aspects of:

a. management;

b. development and procurement;

c. IT operation;

d. communication network;

e. information security;

f. Disaster Recovery Plan;

g. Electronic Banking services;

h. use of IT service providers; and

i. provision of IT services by Bank.

Further on, in the implementation of risk management in the use of IT, a bank should make adjustments to its business objectives, policies, size, and complexity. This way, the bank is expected to be able to manage risks it faces in an effective way in all operational activities supported by the utilization of IT.

17. Consolidated Risk Management Implementation For Bank That Exercises Control Over Subsidiary Companies

With the consideration that risk exposures of a bank may arise directly from its business activities as well as indirectly from the business activities of subsidiary companies, each bank should implement risk management in consolidation with subsidiary
companies and ensure that prudential principle applied in bank business activities is also applied in the subsidiary companies. This requirement is not applicable on subsidiary companies that are owned for the purpose of credit restructuring. Based on this stipulation, various prudent stipulations, among others: RWA, MCAR, assessment by Public Accounting Firm, establishment of PPA, as well as calculation of Legal Lending Limit should be calculated/fulfilled by the bank individually as well as in consolidation to include subsidiary companies. The same is the case with assessment of soundness level, assessment of risk profile, determination of bank status (as the follow up of supervision) should also be conducted individually as well as in consolidation. This prudential stipulation does not need to be implemented for any bank that owns a subsidiary company that conducts insurance activities, however, the bank is still obliged to assess and submit the report on risk management implementation that is prepared separately.

18. Credits Or Financing To Securities Companies And Credits Or Financing With Share Collaterals

This OJK Regulation is one form of banking support to the capital market sector by providing credits or financing to securities companies and credits or financing with share collaterals. Banks may only provide credits or financing to companies that are listed as security companies and not to individual persons up to maximum 25% of the capital of each Security Company or 15% of the bank's capital (select the smaller). Banks are allowed to provide credits or financing with additional collaterals in the form of shares that have been listed on the stock exchange with the highest share value of 50% of the market price or the exchange rate of the shares at the time of the credit or financing agreement is signed. However, if credit or financing is provided by a bank for the purpose of expansion or taking-over, the bank is allowed to receive additional collaterals in the form of shares not listed on the stock exchange, limited to shares issued
by the companies that receive the credits or financing.

19. Implementation of Risk Management in Internet Banking

Any bank that operates internet banking should implement risk management in internet banking activities effectively, which includes:

a. active oversight by board of commissioners and board of director;

b. security control; and

c. risk management, especially for legal risk and reputation risk.

In order to enhance the effectiveness of risk management implementation, the bank should periodically perform evaluation and audit on internet banking activities.

20. Risk Management Implementation at Banks That Extend Residential House Ownership Credits (KPR) and Motor Vehicle Credits (KKB)

Any bank needs to step up prudence in the channeling of KPR, KPR ib (Sharia KPR), KKB and KKB iB (Sharia KKB) because excessively high growths of these credits have the potential of triggering the rise in property asset prices that do not reflect the actual prices (bubble prices), and as such can increase credit risk for the bank with large exposure of property credit. In this regard, conventional as well as sharia banks should be able to maintain productive economy and be able to face challenges in the financial sector in the future. There is a need for a policy that can strengthen the financial sector’s resilience in order to minimize potential sources of vulnerability, including excessive growths of these credits.

KPR iB and KKB iB should continue to observe the characteristics of sharia banking products, including fatwa issued by DSN-MUI.

This policy is implemented through the determination of the sizes of LTV for KPR, FTV for KPR iB and Down Payment for KKB iB and KKR iB.

To avoid the possibility of regulatory arbitrage, the stipulations concerning LTV and Down Payment also
apply to SCB and SBU with a different treatment for Musyarakah Mutanaqisah (MMQ) and IMBT financing products.

Scope of the regulating of KPR iB includes financing extended to individual customers and does not apply on corporate customers. This stipulation only applies to KPR iB for residential houses/apartments/flats (rumah susun) of above 70m². The participation (sharing) of SCB or SBU in the financing of residential house ownership is applied on KPR iB with the MMQ scheme is set at no higher than 80% of the residential house acquisition prices. Deposit money as Down Payment in relation to KPR iB with IMBT scheme is set at no lower than 20% of acquisition prices of the residential houses leased to the customers. The deposits will be calculated as advance payments on the purchases of the residential houses by the customers when the IMBT become due.

In details, the stipulation on advance payment of credit or Down Payment in KKB / KKB iB is set as follows:

a. No lower than 25% for purchases of two-wheel motor vehicles;

b. No lower than 30% for purchases of three-wheel or more motor vehicles for non-productive purposes; and

c. No lower than 20% for purchases of three-wheel or more motor vehicles for productive purposes, if one of the following conditions is met:
   1) is a vehicle that has a license for transporting people or goods issued by an authorized party; or
   2) is requested by an individual or a legal entity that has a certain business license issued by an authorized party and will be used for supporting operational activities of a business owned.

OJK has widened the scope of the stipulation to include:

a. Property ownership credit, comprising tread house (rumah tapak) ownership
credit, flat ownership credit, office cum house ownership credit as well as shop cum house ownership credit; and
b. Property-backed consumption credit with the following parameters:

<table>
<thead>
<tr>
<th>CREDIT/ FINANCING &amp; TYPE OF COLLATERAL</th>
<th>CREDIT FACILITY I</th>
<th>CREDIT FACILITY II</th>
<th>CREDIT FACILITY &gt; II</th>
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<td>KPRS Type 22 – 70</td>
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<tr>
<td>KPRS Type up to 21</td>
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<td>KPRuko / KPRukan</td>
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Note: *) Financing only for akad murabahah and istishna

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<tr>
<th>FINANCING &amp; TYPE OF COLLATERAL (MMQ &amp; IMBT)</th>
<th>CREDIT FACILITY I</th>
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21. Risk Management Certification for Commercial Bank Managers and Officers

In implementing risk management in an effective and planned way, a bank should fill out the positions of bank managers and officers with human resources who have competency and expertise in the risk management field as proven by the risk management certificates issued by the Professional Certification Institutions. Ownership of risk management certificates by bank managers and officers is one of the aspects of competency factor assessment in the Fit and Proper Test. A bank should prepare a plan for and implement human resource development program for the purpose of enhancing competency and expertise in the risk management field. The said human resource development program should be incorporated into Bank Business Plan. Risk management certificates are set at 5 levels based on bank organization level and
structure, namely level 1 up to level 5. Risk management certification can only be organized by professional certification institutions already acknowledged by OJK. Risk management certificates issued by international institutions or other institutions located overseas may be considered to be recognized as being equal with risk management certificates issued by Professional Certification Institutions if the institutions that issue the certificates are internationally recognized and accepted and the certificates are issued within the last four years.

22. Implementation of Anti Money Laundering and Prevention Of The Funding of Terrorism Program

A bank should have a Guidelines for Implementation of Anti Money Laundering (AML) and Prevention of The Funding of Terrorism (PFT) Program that is developed by referring to the Guidelines of Implementation Standard for AML and PFT Program which has to be adjusted to the bank’s organization structure, business complexity as well as types of products and services. This program constitutes part of the bank’s overall risk management implementation. Implementation of AML and PFT program shall cover at least:

a. active oversight by board of directors and board of commissioners;
b. policies and procedures;
c. internal control;
d. management information system; and
e. human resources and training.

In implementing the AML and PFT program, a bank should have written policies and procedures that cover at least:

a. request for information and documents;
b. Beneficial Owner;
c. verification of documents;
d. simpler Customer Due Dilligence (CDD);
e. termination of relationships and rejection of transactions;
f. stipulation concerning high risk areas and PEP;
g. implementation of CDD by third parties;
h. updating and monitoring;
i. Cross Border Correspondent Banking;
j. fund transfers; and
k. document administration.

A bank should perform CDD procedure when:
a. conducting business relationships with candidate Customers;
b. conducting business relationships with Walk in Customers (WIC);
c. the bank doubts the validity of information provided by the Customers, authorized persons and/or Beneficial Owners; or
d. there is the existence of an unnatural financial transaction related to money laundering and/or the funding of terrorism.

To prevent the use of banks as the media or objects for money laundering or the funding of terrorism that involve bank internal parties, a bank should perform the screening procedure when accepting new employees. This is due to a possibility that the use of bank services as the media for money laundering and the funding of terrorism also involves bank own employee(s). Therefore, to prevent or detect the occurrence of a suspicion of money laundering crime conducted through a banking institution, it is necessary to apply Know Your Employee (KYE), which is among others through the screening procedure and monitoring of employee profiles.

In implementing AML and PFT program, a CB should submit to OJK the following:
a. Guidelines for Implementation of AML and PFT Program and an action plan for implementation of the said program no later than 12 months since the effectiveness of the related regulation; and
b. Report on data updating activity at each year end.

Results of the assessment of AML and PFT program implementation is taken into account in bank soundness level assessment through the management factor. In the case the assessment result is score 5, in addition to being taken into account in the soundness
level assessment, it is also linked to the imposition of administrative sanctions in the forms of lowering of the soundness level and termination of the management through the Fit and Proper Test mechanism.

23. Utilization of Foreign Workers and Transfer of Knowledge Program in Banking Sector

A bank may utilize Foreign Workers (FW) in conducting its business activities by meeting the prevailing regulation. Utilization of FW by a bank should take into consideration the availability of Indonesian workers. A bank may only utilize FW for the following positions or equivalent positions:

a. members of board of commissioners or board of directors;

b. executive officers; and/or

c. experts/consultants.

A bank is prohibited from utilizing FW in the fields of personnel and compliance works. A bank should request OJK’s approval before appointing FW to occupy positions as Commissioners, Directors and/or Executive Officers; should submit a plan for FW utilization, which should be stated in Bank Business Plan, to OJK; should guarantee the occurrence of a transfer of knowledge in the utilization of FW.

Obligation for the transfer of knowledge should be executed through:

a. Appointment of two understudies for each FW;

b. Education and job training for the understudies should be in line with the qualifications required for the positions held by the FW; and

Implementation of training or teaching by FW should be for certain time periods, particularly that for bank employees, school/university students, and/or general public.

24. Implementation of Risk Management at Banks That Conduct Activities of Marketing Cooperation With Insurance Companies/Bancassurance

Bancassurance is a cooperation activity between a bank and an insurance company for the purpose of marketing insurance products through the bank. This
cooperation activity is classified into three business models, as follows: (i) Reference; (ii) Distribution Cooperation; and (iii) Product Integration. Any bank that conducts bancassurance should comply with prevailing regulations in the fields of banking and insurance, among others regulations concerning risk management, bank secrecy, product information transparency, and regulations issued by insurance supervisory authority, particularly those related to bancassurance.

In conducting bancassurance, any bank is prohibited to bear or share the risks arising from the insurance products offered. All risks from the insurance products should be borne by the insurance companies which are the bank’s partners.

25. Implementation of Risk Management On Bank Activities Related To Mutual Funds

Banks’ increasing involvement in Mutual Fund-related activities brings benefits as well as potentially poses various risks for banks. In this regard, any bank needs to step up effective risk management implementation by applying prudential principle and protecting customers’ interests. A bank’s activities that are related to Mutual Funds include the bank acting as investor, selling agent of Mutual Fund securities, and Custodian Bank.

For the purpose of supporting effective risk management implementation, the following are the main things a bank should do:

a. Ensure that the Investment Manager, who is a partner in activities related to Mutual Funds, has been registered and obtained a license from the capital market authority in accordance with prevailing regulation;

b. Ensure that the relevant Mutual Funds has obtain statement of effectiveness by the capital market authority in accordance with prevailing regulation;

c. Identify, measure, monitor, and control risks arising from activities related to Mutual Funds.

For the purpose of applying the prudential principle,
any bank is prohibited from conducting actions, both directly as well as indirectly, which will cause the Mutual Funds to have the characteristics of bank products, for example, savings or deposits.

26. Implementing Risk Management At Commercial Banks That Provide Prime Customer Service

Prime Customer Service (PCS) is part of a bank's business activities in providing services related to products and/or activities with certain privileges for Prime Customers. Prime Customers are individuals who meet certain criteria or requirements set by the bank in order to obtain services/use facilities provided by the bank with certain privileges compared to other customers in general.

A bank that conducts PCS should have written policies, which cover at least the following:

a. Requirements to be a Prime Customer, which set certain criteria/requirements that have to be met by customers;

b. Scope of bank products and/or activities, by observing regulations and other related legislations;

c. Scope of privileges for PCS, by yet observing compliance with regulations and other related legislations; and

d. Name of the Service (brand name) and Categorization of Prime Customers by setting clearly the differences in service privileges for each category of Prime Customers.

In conducting PCS, a bank should implement Risk Management on certain aspects as follows:

a. Aspect of privileged service support, which covers at least Risk Management implementation on (i) human resources; (ii) PCS operation; (iii) offers of products and/or activities; (iv) IT;

b. Aspect of transparency as well as customer education and protection. In this aspect, the bank should implement at least the following: (i) providing explanation on PCS specifications; (ii) ensuring clarity in relationships between the bank
and Prime Customers; (iii) ensuring clarity in the authorities of the transaction actors; (iv) submitting information periodically.

Bank should administer data, documents or agreements related to Prime Customer activities in PCS.

27. National Economic Stimulus For Commercial Banks, Sharia Commercial Banks, and Sharia Business Units

a. Commercial Banks

Prudential regulation for the purpose of national economic stimulus for Commercial Banks is a temporary policy that provides easing with a validity period of two years in:

1) Calculation of RWA for Credit Risk by using the standard approach for:
   a) residential house-backed credit;
   b) credit to MSMBs guaranteed by guarantee institutions or credit insurances with the status of BUMD;

2) Assessment and Determination of Asset Quality for:
   a) Credits and other fund provisions in small amounts; and
   b) Restructured credits;

3) Requirements for Capital Participations.

b. Sharia Commercial Banks and Sharia Business Units

1) Policy that supports economic growth stimulus for SCB is applied on:
   a) Calculation of RWA for Credit Risk by using the standard approach for:
      (1) Residential house-backed financing; and
      (2) Financing to MSMBs guaranteed by guarantee institutions or credit insurances with the status of BUMD;
   b) Assessment and determination of asset quality for:
      (1) Financing and other fund provisions in small amounts; and
      (2) Restructured financing;
   c) Capital Participations.
2) Policy to support economic growth stimulus for SBU is applied on the assessment and determination of asset quality for:
   a) Financing and other fund provisions in small amounts; and
   b) Restructured financing;

3) Determination of the qualities of Financing and other fund provisions may only be made based on the timeliness of repayments of principals and/or margins/shared yields/ujrah, for:
   a) Financing and other fund provisions extended by each Bank to one customer or one project in the amount of less than or equal to Rp5 billion;
   b) Financing and other fund provisions extended by each Bank to MSMB customers in the amount of:
      (1) More than Rp5 billion up to Rp20 billion for Banks that meet certain criteria;
      (2) More than Rp5 billion up to Rp10 billion for Banks that meet certain criteria;

4) The quality of Financing after restructuring is set as follows:
   a) The highest is Sub-Standard for Financing that is categorized as Doubtful or Loss prior to restructuring;
   b) The same or unchanged for Financing that is categorized as Current, Under Special Mention or Sub-Standard prior to restructuring.

5) The quality of Financing after restructuring can be Current when there are no arrears for the last three consecutive periods in repayments of principals and/or margins/shared yields/ujrah in accordance with the Financing Restructuring agreements.

6) Capital Participations for the purpose of:
   a) Establishment of a company that will take
over the assets of problem Financing from a SCB that will conduct participation with the SCB’s ownership of no higher than 20% of the company’s capital and the SCB does not hold control; or

b) Additional participation to rescue a subsidiary company, which is a bank that conducts business activities based on sharia principles, may be undertaken if the SCB has the soundness level Composite Rating prior to undertaking the participation of no lower than 3 (CR-3) and has a prospect of a rise to a better Composite Rating. In addition, other requirements for the purpose of capital participation shall refer to prevailing regulation concerning prudential principle in Capital Participation activities.

7) This OJK Regulation is in force for two years starting from 24 August 2015.

28. Requirement To Meet Liquidity Coverage Ratio For Commercial Banks

Any bank, which is categorized as BUKU 4, BUKU 3, Foreign Bank Branch Office (FBBO), or foreign bank that is not FBBO, is obliged to meet Liquidity Coverage Ratio (LCR) of 100%, individually as well as in consolidation. LCR has the purpose of maintaining bank’s short-term liquidity resilience by ensuring that the bank has high quality liquid assets to meet its liquidity needs for the next 30 (thirty) days under stress test scenarios. LCR constitutes a comparison between High Quality Liquid Assets (HQLA) and net cash outflow. The obligation to fulfil LCR should be met in stages starting from 31 December 2015 up to 31 December 2018.

The bank should perform calculation and reporting of LCR, both at individual level as well as consolidation level, daily, monthly, and quarterly. The first monthly LCR reporting shall be made for the position of December 2015 for banks that are categorized as BUKU 4 and FBBO, and for the position of June 2016 for banks
that are categorized as BUKU 3 and non-FBBO foreign banks.
Quarterly LCR reporting shall be made for the first time for the position of March 2016 for banks that are categorized as BUKU 4 and FBBO and for the position of September 2016 for banks that are categorized as BUKU 3 and non-FBBO foreign banks.

29. Special Policies on Quality of Credit/Financing in Areas Affected by Natural Disasters
OJK Regulation number 45/POJK.03/2017 on Special Treatment of Credit or Bank Financing for Certain Territories in Indonesia Affected by Natural Disasters, regulates the following matters:

1. Credit Quality Rating
   a. Determination of Credit Quality of Commercial Banks with maximum ceiling of Rp 5 billion is based solely on the accuracy of payment. Meanwhile, for Credit with a ceiling above Rp 5 billion, Asset Quality Assurance is still referring to prevailing regulations, namely PBI No.14 / 15 / PBI / 2012 on Asset Quality Rating for Commercial Banks.
   b. Credit Quality Determination for BPR is based on the accuracy of principal and / or interest payments.

2. Quality of Restructured Credit
   a. Credit Quality for Commercial Banks and Rural Banks restructured as a result of natural disasters shall be established Current since the restructuring up to the period in accordance with the Decree of the Board of Commissioners.
   b. The above Credit Restructuring can be made to the Credit disbursed both before and after the disaster

3. Provision of New Loans to Affected Debtors
   a. Bank dapat memberikan Kredit baru bagi debitur yang terkena dampak bencana alam.
   b. Penetapan Kualitas Kredit baru tersebut di atas dilakukan secara terpisah dengan Kualitas
Kredit yang telah ada sebelumnya.

4. Entry into Bank Syariah
   Special treatment of the affected area also applies to the provision of funds based on sharia principles that include financing (mudharabah and musyarakah), receivables (murabahah, salam, istisna), rent (ijarah), loans (qardh), and other provision of funds.

D. Regulation Concerning Reports and Accounting Standards
   1. Transparency of Bank Financial Condition
      OJK Regulation Number 32/POJK.03/2016 concerning Amendment To OJK Regulation Number 6/POJK.03/2015 concerning Transparency and Publication of Bank Reports is issued with the purpose of enhancing information disclosure as stipulated in Pillar 3 of Basel II and Basel III. Further provision concerning formats of the Publicized Reports is stipulated in OJK Circular Letter Number 43/SEOJK.03/2016 concerning Transparency and Publication of Conventional Commercial Bank Reports. Enhancement of the regulation concerning Transparency and Publication of Bank Reports contains among others additional scope for disclosure reporting on calculation of Liquidity Coverage Ratio, Counterparty Credit Risk, Interest Rate Risk in the Banking Book (IRRBB), as well as Material Information and/or Facts; a change in the frequency for quantitative information disclosure on risk exposure from annual to bi-annual; as well as adjustment to capital components in the Report on Calculation of MCAR.
      a. Commercial Banks
         For the purpose of creating market discipline and in line with development of international standards, it is necessary to make an effort to step up transparency of bank financial condition and performance through the publication of bank reports to provide ease for assessment by the public and market actors.
         In addition, to step up transparency, any bank is
required to provide quantitative and qualitative information in a timely, accurate, relevant and adequate manner to provide ease for information users in assessing bank financial condition, performance, risk profile, and risk management implementation, as well as business activities, including determination of interest rate.

For the purpose of financial condition transparency, a bank is obliged to prepare and present financial reports, comprising:

1) Annual Report;
2) Quarterly Condensed Financial Statement;
3) Monthly Condensed Financial Statement;
4) Consolidated Financial Report; and
5) Other Publicized Reports.

b. Rural Banks and Sharia Rural Banks

For the purpose of the transparency of RB and SRB financial condition, any RB or SRB should prepare and present financial reports comprising:

1) Annual Report;
2) Condensed Financial Statement;

Annual Report shall contain at least:

1) General information: information on management, ownership, development of RB business, management strategies and policies, management report;
3) Public Accountant Opinion on RB Annual Financial Report audited by the Public Accountant;
4) All other aspects of transparency and information;
5) All aspects of disclosure as obliged by FAS applicable on RB.

For any RB with total assets > Rp10 billion, the Annual Financial Report should be audited by a Public Accountant and developed in accordance with FAS for Entities Without Public Accountability.
and RB Accounting Guidelines. For any SRB with total assets of above Rp10 billion, the Annual Financial Report should be audited by a Public Accountant.


RB and SRB should announce the Condensed Financial Statement quarterly for reporting positions of end of March, June, September, and December.

Announcement of the referred condensed financial statement may be done through a local daily newspaper or stuck to the bulletin board or other media that will enable the public to read it easily in all RB/SRB offices.

For any RB with total assets of Rp10 billion and above, the condensed financial statement for the position of end of December should specifically be announced in a local daily newspaper and stuck to the bulletin board or other media that will enable the public to read it easily in all RB/SRB offices.

The Quarterly Condensed Financial Statement should be presented in comparison with the previous year’s Quarterly Condensed Financial Statement.
<table>
<thead>
<tr>
<th>No</th>
<th>Type of Report</th>
<th>Report Announcement/Media or Submission</th>
<th>Deadline For Report Announcement/Submission</th>
<th>Late Announcement or Submission</th>
<th>No Announcement or Submission</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Monthly Publicized Report</td>
<td>Online through OJK reporting system or LKPBU system (Commercial Bank Head Office Reporting)</td>
<td>In accordance with OJK reporting system or LKPBU system</td>
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<td>Publicized in Bank Website</td>
<td>End of the following month after the end position of the reporting month</td>
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<td>2.</td>
<td>Quarterly Publicized Report</td>
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<td>In accordance with OJK reporting system or LKPBU system</td>
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<td>Publicized in Bank Website</td>
<td>- For reports for the positions of end of March, June, and September: the 15th of the second month after the end of the reporting month. - For reports for the position of</td>
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<td>After the deadline for announcement up to no later than: - For reports for the positions of end of March, June, and September: End of</td>
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<td>end of December: End of March of the following year after the end of the reporting month.</td>
<td>the second month after the end of the reporting month; - For reports for the position of end of December: the 15th of April of the following year after the end of the reporting month.</td>
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<td>3.</td>
<td>Certain Quarterly Reports</td>
<td>To Bank Supervisor s</td>
<td>Same as for the announcement of Quarterly Publicized Report</td>
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<td>4.</td>
<td>Proof of announcement in newspaper</td>
<td>To Bank Supervisor s</td>
<td>No later than two working days after the announcement in newspaper.</td>
<td>After the deadline for submission.</td>
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<td>5.</td>
<td>Quarterly Disclosure of risk exposure in the event there is information that is prone to rapid change.</td>
<td>Bank Website</td>
<td>Same as for the announcement of Quarterly Publicized Report</td>
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<td>6.</td>
<td>Annual Publicized Report</td>
<td>Bank Website</td>
<td>No later than four months after the end of the Accounting Year</td>
<td>After the end of the deadline for announcement up to no later than one month</td>
<td>After the deadline for late announcement or submission.</td>
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<td>after the deadline for announcement or submission.</td>
<td>After the deadline for announcement up to no later than one month after the deadline for announcement or submission.</td>
<td>After the deadline for late announcement or submission.</td>
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<td>7.</td>
<td>Certain Annual Report</td>
<td>To Bank Supervisors</td>
<td>No later than four months after the end of the Accounting Year of the Parent Entity or Subsidiary Entity or head office overseas.</td>
<td>After the deadline for announcement up to no later than one month after the deadline for announcement or submission.</td>
<td>After the deadline for late announcement or submission.</td>
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<tr>
<td>8.</td>
<td>Report on Prime Lending Rate Announcement in newspaper</td>
<td>No later than 7 working days after the end of March, June, September, and December.</td>
<td>After the deadline for announcement up to no later than one month after the deadline for announcement or submission.</td>
<td>After the deadline for late announcement.</td>
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<td>Bank Website</td>
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<td>Announcement on Bulletin Board at Bank Offices</td>
<td>Anytime</td>
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<td>9.</td>
<td>Report on Material Information and/or facts</td>
<td>Bank Website</td>
<td>Immediately within no later than two working days after the existence</td>
<td>After the deadline for announcement.</td>
<td>After the deadline for late announcement or submission.</td>
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<td>No</td>
<td>Type of Report</td>
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<td>Supervisor s with a copy to Bank Supervisor s</td>
<td>Deadline for Announcement or Submission</td>
<td>Late Announcement or Submission</td>
<td>No Announcement or Submission</td>
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</table>

Note: In regard reports which submission is not through the online reporting system, in the event the deadline for submission falls on a Saturday, Sunday, or other holidays, the deadline for report submission shall be the next working day.

2. **Information Transparency on Bank Products and Use of Customer Personal Data**

Any bank should apply information transparency on Bank Products and use of Customer Personal Data that is set in written policies and procedures. The bank should provide complete and clear written information in Indonesian concerning the characteristics (including the risks) of each Bank’s Product. In the event a bank is going to give and/or disseminate Customer Personal Data, the bank should obtain written approvals from the customers.

3. **Indonesian Banking Accounting Guidelines for Commercial Banks**

Indonesian Banking Accounting Guidelines (IBAG) 2008 edition is the reference for the preparation and presentation of bank financial reports, which refers to Statement of Financial Accounting Standard (SFAS) Number 50 concerning Financial Instruments: Presentation and Disclosure and SFAS Number 55 concerning Financial Instruments: Recognition and Measuring of 2008. Considering IBAG is the implementation instruction of SFAS specifically for the banking industry, in regard matters that are not
stipulated in IBAG and that there are changes in SFAS since 2008 up to the present, the preparation and presentation of financial reports shall still refer to prevailing SFAS.

In connection with the enactments of SFAS Number 50 concerning Financial Instruments: Presentation and Disclosure and SFAS Number 55 concerning Financial Instruments: Recognition and Measuring, Bank Indonesia (BI) has made adjustments to Indonesian Banking Accounting Guidelines (IBAG) 2001 and it becomes IBAG 2008.

IBAG 2008 is the reference for the preparation and presentation of bank financial reports. Considering IBAG is the implementation instruction of SFAS, matters that are not stipulated in IBAG shall still refer to prevailing SFAS.

4. Sharia Banking Accounting Guidelines for Sharia Banks and SBU

In 2013, revision of the 2003 Indonesian Sharia Banking Accounting Guidelines (ISBAG) was issued as the result of cooperation between BI and the Indonesian Accountant Association/Ikatan Akuntan Indonesia (IAI), which is only applicable for SCB and SBU. ISBAG constitutes guidelines for the preparation and presentation of sharia bank financial reports and is the implementation instruction that contains further translations of a number of SFAS relevant to the sharia banking industry, such as SFAS specifically for sharia transactions, SFAS Numbers 50, 55, 60, and 48, as well as addresses the issuance of DSN Fatwa Number 84/DSN-MUI/XII/2012 dated 21 December 2012 concerning Method for Recognition of Murabahah Income at Sharia Financial Institutions (SFI). This revised ISBAG is expected to enhance the transparency of financial condition and financial reports of SCB and SBU to be more relevant, comprehensive, reliable, and comparable and more in line with the latest condition and development. Meanwhile, matters that are not stipulated in the 2013 ISBAG shall still refer to prevailing SFAS as well as their implementation
guidelines as long as they are not in conflict with the Sharia Principles.

Several main provisions in 2013 ISBAG are as follows: (i) recognition of income by using the annuity method or proportionality method can only be used for recognition of financing income based on selling-buying. In the event the annuity method is used, recording of the murabahah transactions should use SFAS 55, 50, 60 and other relevant SFAS. Meanwhile, in the event the proportionality method is used, recording of the murabahah transactions should use SFAS Number 102. Either method should be used in all types of murabahah financing portfolios as well as be disclosed in accounting policies and used consistently; (ii) the obligation to establish CKPN on financial assets and non-financial assets shall be in accordance with prevailing FAS.

5. **Determination on The Use of Financial Accounting Standards for Rural Bank**

For the purpose of stepping up the transparency of RB financial condition and preparation of financial reports that are relevant, comprehensive, reliable, and comparable, any RB should prepare and present financial reports based on FAS that are relevant for RB. Considering the complexity of SFAS 50 and 55 as well as the possibility of difficulty in implementation at Small, Medium-Scale Enterprises (SMEs), in May 2009, the Ikatan Akuntan Indonesia (IAI) issued FAS for Entities Without Public Accountability for SMEs. Furthermore, taking into consideration the characteristics of RB that have limited business activities in accordance with the Act on Banking as well as based on IAI, the following considerations are decided:

a. Implementation of SFAS 50/55 Financial Instruments, which replaces SFAS 31, is considered not suitable with the operational characteristics of RB and will require high cost compared to the benefits obtained;

b. DSAK-IAI (Financial Accounting Standard Board –
IAI) states that FAS for Entities Without Public Accountability may be made applicable for entities that have significant public accountability as long as the authorized authority regulates the use the said FAS for Entities Without Public Accountability.

6. Periodic Reports of Commercial Banks and Other Reports

Table 4.9. Objects and Criteria of Fit and Proper Test

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<tr>
<th>Type of Report</th>
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<th>Rural Bank</th>
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<tbody>
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<td>1. Periodic Reports</td>
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<td>C. Monthly</td>
<td>• Commercial Bank Monthly Report/Sharia</td>
<td>• Monthly Report</td>
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<td>Type of Report</td>
<td>Commercial Bank</td>
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<td></td>
<td>Commercial Bank Monthly Report</td>
<td>Legal Lending Limit</td>
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<td>● Monthly Condensed Financial Statement</td>
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<td>● Report on Foreign Currency Flows</td>
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<td>● Report on Credit/Financing Restructurings</td>
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<td>● Report on Debtors (Debtor Information System)</td>
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<td>● Report on Legal Lending Limit</td>
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<td>● Report on Maturity Profile</td>
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<td>● Report on Market Risk</td>
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<td>● Report on Depositors and Core Debtors</td>
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<td>● Report on MCAR by taking into account market risk</td>
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<td>● Report on <em>mudharabah</em> investments (for Sharia Banks)</td>
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<td>● Report on structured product transactions</td>
<td>Report on Debtors (Debtor Information System)</td>
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<td>● Report on RWA for credit risk with standard method</td>
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<td>● Report on calculation of Prime Lending Rate</td>
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<td>● Report on Monthly Operation Of Activities Of Payment Instruments Using Cards and Electronic Money</td>
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<td>● Letters of Credit with Domestic</td>
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<td>Type of Report</td>
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<td>Documentation</td>
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<td>• Report on Custodian Activities</td>
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<td>• Remittances of Indonesian Migrant Workers overseas and Foreign Workers in Indonesia</td>
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<td>• Government Account Movements</td>
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<td>• Report on Bank Activities as Selling Agent of Non-Bank Products in the form of overseas financial products</td>
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<td>• Report on Banking Transactions through e-banking delivery channel</td>
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<td>• Report on Office Networks</td>
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<td>d. Quarterly</td>
<td>• Quarterly Condensed Financial Statement</td>
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<td>• Report on Business Plan Realization</td>
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<td>• Report on Handling and Settlements of Customer Complaints</td>
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<td>• Report on Risk Profile</td>
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<td>• Report on Consolidated Risk Profile</td>
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<td>• Financial Reports of Subsidiary Companies</td>
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<td>• Report on Interbank Transactions with Parties That Have Special Relationships</td>
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<td>• Condensed Financial Statement</td>
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<td>• Report on Handling and Settlements of Customer Complaints</td>
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<td>• Report on RWA for credit risk with the standard method for Bank at consolidation level</td>
<td>• Report on Work Plan Implementation</td>
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<td>• Report on implementation of activities as Selling Agent of Mutual Fund Securities / Non-Bank Products</td>
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<td>• Report on Operation Of Activities Of Payment Instruments Using Cards and Electronic Money</td>
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<td>e. Semesterly</td>
<td>• Report on Board of Commissioners Oversight over Implementation of Bank Work Plan</td>
<td>• Report on Work Plan Implementation</td>
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<td>• Report on Implementation and Main Findings of Internal Audit</td>
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<td>• Report on Implementation of Compliance Director’s Tasks</td>
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<td>• Report on Sources and Uses of Qardh funds, Report on Sources and Uses of Zakat, Infaq, Shodaqah (ZIS) funds</td>
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<td>• Self-assessment of Bank Soundness Level</td>
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<td>f. Annually</td>
<td>• Business Plan</td>
<td>• RB Work Plan</td>
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<td>• Annual Financial Report</td>
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<td>• Report on Plan for Overseas Borrowings Received</td>
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<td>Type of Report</td>
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<td>• Report on Information System Technology</td>
<td>• Report on Sources and Uses of ZIS</td>
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<td>• Report on Sources and Uses of Qardh Funds</td>
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<td>• Report on Changes in Related Investment Funds</td>
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<td>• Report on Outsourcing Plan</td>
<td>• Report on External Party Review of Internal Audit Performance</td>
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<td>• Report on Problem Outsourcing</td>
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<td>• Report on Plan for Customer Data Updating</td>
<td>• Report on Realization of Customer Data Updating</td>
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<td>• Report on Banking Personnel</td>
<td>• Report on Sources and Uses of ZIS</td>
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<td>SCB and CCB that Have SBU are obliged to submit:</td>
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<td>• Report on Sources and Uses of Qardh Funds</td>
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<td>• Report on Changes in Related Investment Funds</td>
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2. Other Reports

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<th></th>
<th>Commercial Bank</th>
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<td></td>
<td>• Report concerning Bank institutional arrangement</td>
<td>• Report concerning Bank institutional arrangement</td>
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<td>• Report concerning the management of the Bank</td>
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<td>• Report concerning Bank operation</td>
<td>• Report concerning the management of the Bank</td>
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<td>• Special report</td>
<td>• Report concerning the management of the Bank</td>
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<td>Type of Report</td>
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<td>concerning Bank development and oversight</td>
<td>• Report concerning Bank operation</td>
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<td></td>
<td>• Report on suspicious financial transactions and Report on cash financial transactions to PPATK (Center for Financial Transaction Reporting and Analyses)</td>
<td>• Special report concerning Bank development and oversight</td>
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<td></td>
<td>• Report concerning Bank new products and activities</td>
<td>• Report on suspicious financial transactions to PPATK</td>
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</table>

7. **Reporting and Requesting of Debtor Information through Sistem Layanan Informasi Keuangan**

POJK 18/POJK.03/2017 stipulates the procedures for reporting and requesting debtor information through the Financial Information Service System (SLIK). Parties which are required to be SLIK reporting entities are Commercial Banks, RBs, SRBs, Financing Institutions providing funding provision facilities, and Financial Service Institutions (FSIs) providing funding provision facilities, except microfinance institutions. Other parties who may become SLIK reporting entities are other FSIs that provide savings and loan services based on information technology (peer to peer lending), microfinance institutions, and institutions other than FSIs, such as Koperasi Simpan Pinjam (KSP), if they are eligible and have the approvals of OJK.

The Reporting Entity shall be obliged to submit the debtor report in a complete, accurate, current, comprehensive, and timely manner. Debtor report must be submitted on a monthly (no later than the 12th of the following month after the end of the month of the debtor report) and online basis through SLIK. Scope of the debtor report submitted includes debtor data, funding provision facilities, collaterals, and guarantors,
members of board of management and owners, as well as debtor’s financial condition.
The parties who can request debtor information are the reporting entities, debtors, credit bureau (LPIP), and other parties in the framework of the implementation of legislations such as BI, Indonesia Deposit Insurance Corporation (LPS), Center for Financial Transaction Reporting and Analysis (PPATK), central government, local governments, state institutions and law enforcement institutions.
In the event of any inaccurate information concerning any debtor, the debtor may file a complaint directly with the relevant reporting entity. The Reporting Entity should settle the debtor’s complaint no later than 20 working days after the date the complaint is received by the reporting entity and, where necessary, a special research may be extended for 20 working days.
Currently, institutions that have become SLIK reporting entities are Commercial Banks, RBs, SRBs, Financing Institutions, and other FSIs that have been reporting entities of the Debtor Information System/Sistem Informasi Debitur (SID) when the OJK Regulation on SLIK became effective. RB, SRB, and financing companies, which have not been SID reporting entities when the OJK Regulation on SLIK became effective, should become SLIK reporting entities no later than December 31, 2018. Furthermore, Venture Capital Companies, Infrastructure Financing Companies/Perusahaan Pembiayaan Infrastruktur (PPI), and pawn companies that have not become SID reporting entities when the OJK Regulation on SLIK became effective, must become SLIK reporting entities no later than December 31, 2022.

8. Lembaga Pengelola Informasi Perkreditan
Lembaga Pengelola Informasi Perkreditan is an institution or agency that collects and processes credit data and other data to produce information on credit. The data source of LPIP is credit data and/or other data, originating both from financial institutions as well as non-financial institutions.
Requirements for parties that wish to establish LPIP are among others:

a. The legal entity LPIP should have the form of a Limited Liability Company;
b. The paid-in capital of the LPIP should be at least Rp50 billion;
c. Share ownership of one party is at maximum 51%; and
d. Parties that can become the shareholders of the LPIP are Indonesian legal entities.

LPIP licensing comprises two stages, namely:

a. approval in principle; and
b. business license

The requirement for number of members of the Board of Directors of LPIP should be at least three members. The requirement for LPIP management requires that at least one member of the Board of Directors of LPIP should have experience and/or knowledge on credit information. Members of the Board of Directors may only concurrently serve as a Director, a member of the Board of Commissioners, or an Executive Officer of a non-profit company, organization or institution.

In the management of data, LPIP should carry out security measures to maintain the accuracy, up-to-date condition, safety, and confidentiality of data. In addition LPIP should place servers and databases within the territory of the Republic of Indonesia.

Supervision over LPIP includes on-site supervision and off-site supervision. On-site supervision is conducted through direct examination, while off-site supervision is undertaken by analysing the reports submitted by LPIP. The types of reports that should be submitted by LPIP include monthly reports, semi-annual reports, annual reports, annual business plan, and other incidental reports.

Administrative sanctions imposed against violations committed by LPIP are in the forms of written warning, payment penalty, and business license revocation.
E. Stipulation Concerning Bank Supervision

1. Bank Business Plan

   a. Commercial Banks

      A Bank should develop a realistic Business Plan each year by taking notice of:

      1) External and internal factors that can influence bank’s business sustainability;
      2) Prudential principle;
      3) Implementation of risk management; and
      4) Sound banking principles.

      In regard any CB that has a SBU, in addition to the Business Plan described above, it should also contain special Business Plan for the SBU, which is a unity with the General Bank Business Plan. The Business Plan shall include at least:

      1) Executive summary
      2) Management policies and strategies;
      3) Implementation of risk management and bank’s present performance;
      4) Projection of financial report along with assumptions used;
      5) Projection of ratios and other certain accounts;
      6) Funding plan;
      7) Fund placement plan;
      8) Capital plan;
      9) Plan for developments of organization and human resources;
      10) Plan for issuances of new products and / or implementations of new activities;
      11) Plan for development and/or changes in office networks; and
      12) Other information.

      Bank may only make changes to the Business Plan when:

      1) there are external and internal factors that significantly influence bank operation;
      2) there are factors that significantly influence bank performance, based on OJK’s consideration; and / or
      3) changes to the Business Plan may only be
made once, no later than end of June in the current year.

b. Rural Banks and Sharia Rural Banks

Any RB and SRB should develop a business plan that includes short-term plan, medium-term plan, and/or long-term strategic plan realistically each year. The business plan should be developed by the board of directors and approved by the board of commissioners, by taking notice of:

1) external and internal factors that can influence RB’s and SRB’s business sustainability;
2) prudential principle;
3) sound banking principles.

In addition to observing the above-mentioned factors, a SRB should develop the Business Plan by observing the sharia principles.

The scope of RB and SRB business plan shall include at least:

1) Executive summary
2) Business strategies and policies
3) Projection of financial report
4) Targeted ratios and financial accounts
5) Fund accumulation plan
6) Fund channeling plan
7) Capital plan
8) Plan on developments of the organization, IT, and human resources
9) Plan for implementation of new business activities or plan for issuances of new products and implementations of new activities
10) Plan for development and/or changes in office networks.
11) Other information

The periods for projections and plan of several scope of substances covered in business plan preparation are differentiated based on core capital, namely RB and SRB with core capital respectively less than Rp50 billion and RB and SRB with core capital respectively of no less than Rp50 billion.
OJK has the authority to request any RB and SRB to make adjustments to the Business Plan. Meanwhile, under certain considerations, a RB and SRB may make changes to the business plan once. The board of directors should develop the report on business plan implementation, while the Board of Commissioners should develop the report on business plan oversight bi-annually. Any RB or SRB shall be imposed with the sanctions of written reminder and payment penalty when it is late in submitting or when it does not submit the business plan. It will be imposed with the sanction of penalty payment when it submits a revised business plan that is incomplete or is not supplemented with documents and information in accordance with the scope and it will be imposed with administrative sanctions in the forms of written reminder, lowering of RB/SRB soundness level, and/or temporary suspension of a part of RB/SRB business activities when it does not meet other set regulations.

2. Assessment of Bank Soundness Level
   a. Commercial Banks
      Any bank should maintain and/or step up bank soundness level by implementing prudential principle and risk management in the conduct of business activities. Bank should perform assessment of soundness level by using the RBBR (Risk-Based Bank Rating) approach, both at individual level as well as consolidation level. Bank should perform self-assessment on bank soundness level at no less than each semester for the positions of end of June and end of December. Bank should update bank soundness level self-assessment at any time required. Factors of bank soundness level assessment include:
      1) Risk profile
      2) Good Corporate Governance (GCG);
      3) Profitability (earnings); and
4) Capital.
Bank soundness level Composite Rating (CR) shall be determined based on a comprehensive and structured analysis on the rating of each factor by observing the materiality and significance of each factor, as well as by taking into account bank's capacity in facing significant changes in external condition. The categories of CR are as follows:

<table>
<thead>
<tr>
<th>CR</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR-1</td>
<td>Bank's condition is in general extremely sound and as such is assessed to be extremely capable of facing significant negative influences from changes in business condition and other external factors.</td>
</tr>
<tr>
<td>CR-2</td>
<td>Bank's condition is in general sound and as such is assessed to be capable of facing significant negative influences from changes in business condition and other external factors.</td>
</tr>
<tr>
<td>CR-3</td>
<td>Bank's condition is in general adequately sound and as such is assessed to be adequately capable of facing significant negative influences from changes in business condition and other external factors.</td>
</tr>
<tr>
<td>CR-4</td>
<td>Bank's condition is in general less sound and as such is assessed to be less capable of facing significant negative influences from changes in business condition and other external factors.</td>
</tr>
<tr>
<td>CR-5</td>
<td>Bank's condition is in general unsound and as such is assessed to be incapable of facing significant negative influences from changes in business condition and other external factors.</td>
</tr>
</tbody>
</table>

b. Rural Banks
The soundness level of a RB is basically assessed with qualitative approach on various aspects that influence the condition and development of an RB, which include aspects of Capital, Earning Asset Quality, Management, Earnings, and Liquidity (CAMEL). Matters related to the above-mentioned assessment are:
1) Results of assessment are set in four predicates, namely: Sound, Adequately Sound, Less Sound, Unsound;
2) The weight of each CAMEL factor is:

<table>
<thead>
<tr>
<th>CAMEL Factor</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>30%</td>
</tr>
<tr>
<td>Earning Asset Quality</td>
<td>30%</td>
</tr>
<tr>
<td>Management</td>
<td>20%</td>
</tr>
<tr>
<td>Profitability</td>
<td>10%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>10%</td>
</tr>
</tbody>
</table>

3) Implementation of regulations, which sanctions are linked to RB soundness level assessment, include violations and/or exceedances of the provisions of Legal Lending Limit, Anti Money Laundering (AML) and Prevention of the Funding of Terrorism (PFT), and violations of the regulation concerning transparency of bank product information and use of customer personal data; and

4) Factors that can lower bank soundness level to become Unsound are internal disputes, interventions of parties outside bank management, window dressing, bank inside bank practices, other banking practices that can endanger bank’s business sustainability.

3. **Determination of the Status and Follow Up of the Supervision of Commercial Bank**

OJK Regulation Number 15/POJK.03/2017 dated April 4, 2017 is an amendment at the same time a conversion of Bank Indonesia Regulation Number 15/2/PBI/2013 concerning Determination of the Status and Follow Up of Conventional Commercial Bank Supervision and BI Regulation Number 13/3/PBI/2011 on Determination of the Status and Follow Up of Bank Supervision. The amendments to these stipulations is a follow up of the issuance of Act Number 9 Year 2016 concerning Prevention and Handling of Financial System Crisis which regulates among others the solvency handling of
each systemic bank separately, which requires an amendment to the stipulation concerning the status and follow-up of commercial bank supervision.

### Table 4.12. Determination of the Status of Bank Supervision

<table>
<thead>
<tr>
<th>Intensive Supervision</th>
<th>Special Supervision</th>
</tr>
</thead>
</table>
| **Criteria**          | OJK shall determine a Bank to be Bank Under Special Supervision (BUSS) if a BUIS or bank under normal supervision is considered to be experiencing difficulties that might endanger its business sustainability, which means when it meets one or more of the following criteria:  
  a. MCAR ratio is < 8%  
  b. ratio of Statutory Reserves in rupiah is less than 5% and based on OJK’s assessment:  
    1. the Bank experiences fundamental liquidity problems; or  
    2. the Bank experiences deteriorating development within a short time. |
| A Bank is determined to be Bank Under Intensive Supervision (BUIS) when the bank is assessed to have potential difficulties that might endanger its business sustainability, which means when it meets one or more of the following criteria:  
  a. MCAR ≥ 8%, but less than the ratio of MCAR in accordance with the bank’s risk profile that must be met by the bank;  
  b. Ratio of core capital (tier 1) is less than a certain percentage set by OJK;  
  c. Ratio of Statutory Reserves in rupiah is ≥ 5%, but less than the ratio set for rupiah Statutory Reserve that must be met by the Bank, and based on OJK’s assessment the bank has fundamental liquidity problem;  
  d. Ratio of net problem credits (non-performing loans) is more than 5% of total credit;  
  e. Bank Soundness Level with composite rating of 4 or 5; and/or  
  f. Bank Soundness Level with composite rating of 3 and good governance rating of 4 or 5 | OJK shall determine BUIS status no longer than one year since the date of OJK’s notification letter and may be extended at most 1 time with duration of no longer than 1 year if the banks meets the criteria of:  
  a. Net problem credits (non-|
| **Period**            | OJK shall determine BUSS status no longer than 3 months since the date of OJK’s notification letter. |
| OJK shall determine BUIS status no longer than one year since the date of OJK’s notification letter and may be extended at most 1 time with duration of no longer than 1 year if the banks meets the criteria of:  
  a. Net problem credits (non- |
performing loans) is more than 5% of the total credit and the settlements are complex;
b. Bank soundness level is at composite ratings 4 or 5; and/or
c. Bank soundness level is at composite rating 3 and GCG at rating 4.
Specifically for criteria b and c, the period extension for BUIS shall also be supplemented with a step up in supervisory measures.

4. Determination of the Status and Follow Up of the Supervision of Rural Banks and Sharia Rural Banks
This stipulation is structured to bridge between an RB/SRB under normal supervision towards an RB/SRB under Special Surveillance, so that the condition of a RB/SRB that experiences performance deceleration causing the RB/SRB to be close to the special surveillance criteria can be detected earlier and receive structured supervisory actions. Prior to the enactment of this stipulation, a RB/SRB may be directly set to be under the Special Surveillance status without going through the status of RB/SRB under Intensive Supervision if based on supervision and examination results the RB/SRB meets the Special Surveillance criteria. Therefore, with the enactment of this OJK Regulation, OJK has the authority to determine the supervision status of any RB/SRB consisting of normal supervision, intensive supervision, or special surveillance.
The criteria for an RB/SRB to be set at or to be excluded from intensive supervision or special surveillance, and to be set as a RB/SRB that can no longer be rehabilitated shall be provided differently with reference to the date of effectiveness of the stipulation concerning Minimum Capital Adequacy Requirement (MCAR) and the fulfillment of the minimum core
capital, which are:

a. within the period starting from the effectiveness of this OJK Regulation, namely November 1, 2017, up to 31 December 2017; and

b. since January 1, 2020.

OJK determines the status of Bank Under Intensive Supervision in the case when a RB/SRB has the potential to suffer a difficulty that may endanger business continuity by taking into consideration the criteria of:

a. MCAR ratio,

b. Cash Ratio (CR), and/or

c. soundness level.

OJK gives a period of maximum 1 year for a Bank Under Intensive Supervision, which can be extended for one time for a period of no longer than 1 year when certain requirements set by the OJK are met.

A RB/SRB can be set to be Bank Under Special Surveillance for a period of no longer than 3 months in the case where:

a. the RB/SRB is assessed to be experiencing a difficulty that endangers business continuity by meeting the criteria of average MCAR ratio and/or CR for the last six months as set by the OJK; or

b. the period or extended period for Bank Under Intensive Supervision has been exceeded, however, the criteria for average MCAR ratio or CR for the last six months has not been met to be taken out from the intensive supervision status.

In the event a RB/SRB under normal supervision or intensive supervision experiences a decline in average MCAR ratio or CR for the last 6 months that meets the criteria set by the OJK, the RB/SRB should be set to be Bank Under Special Surveillance for the period of no longer than 2 months and should be prohibited from undertaking fund accumulation and fund channeling activities.

A RB/SRB is set to be out of the status of Bank Under Special Surveillance if it meets the criteria of normal supervision and by taking into account potential losses
and liquidity needs for the next 6 months. OJK determines a RB/SRB as a RB/SRB that cannot be rehabilitated in the case of:

a. the Bank Under Special Surveillance has exceeded the period for special surveillance and has not met the criteria of a RB/SRB under normal supervision;

b. a RB/SRB that is yet in the period of being under special surveillance for a period of no longer than 3 months, however, has been experiencing a decline in average MCAR ratio and/or CR for the last 6 months; or

c. during the period of special surveillance, the OJK can at any time determine that a RB/SRB to be unable to be rehabilitated, in the event based on OJK’s assessment the RB/SRB is not able to raise the average MCAR ratio and/or CR for the last 6 months in order to be under normal supervision.

The OJK shall give a written notification to LPS concerning the RB/SRB that cannot be rehabilitated and request LPS to make a decision whether to rescue or not to rescue the relevant RB/SRB. In the event LPS decides not to rescue the RB/SRB, OJK will revoke the business license of the relevant RB/SR after receiving a notification from LPS. Settlement of the RB/SRB which business license has been revoked shall be performed by LPS.

**Figure 4.5. Supervision Cycle of RB/SRB**

Supervision statuses of RB/SRB

- **Normal Supervision**
  - Under normal supervision but assessed to have significant problems

- **Intensive Supervision**
  - Soundness predicate is still sound; or
  - Composite 3 rating, however, has the potential to be set under intensive supervision

- **Special Surveillance**
  - Refers to legislations that provide for RB soundness level assessment system based on sharia principles

Threshold criteria is based on implementation stages of determination of supervision statuses of RB/SRB

- **Stage I**
  - Since the effectiveness of OJK Regulation up to 31 December 2019

- **Stage II**
  - Since January 1, 2020
5. **Requirements and Procedure of Bank Examination**

To obtain an overview of bank strategic policies and business activities that are strategic and risky, it is necessary to undertake an examination of a bank in general manner as well as in specific manner related to parties that have roles in the risks that face the bank in the conduct of its business activities. Objectives of the examination are to obtain a comprehensive picture of the bank’s business development and Finance, to obtain confidence in the reports submitted by the bank to OJK, to ensure Bank’s compliance with OJK Regulation and other Legislations, and to examine the truth of alleged banking criminal transactions. In this OJK Regulation, OJK may conduct periodic as well as ad-hoc examinations on:

a. Parent company of the Bank
b. Subsidiary companies of the Bank
c. Parties related to the Bank
d. Parties affiliated with the Bank
e. Debtors of the Bank

An examination of a bank will be conducted by an examining team of at least 2 persons, which may consist of OJK employees, other parties assigned by OJK who meet the requirements set forth in the OJK Regulation, or a combination of both. Results of the examination that has been conducted by the examining team will be incorporated in an Examination Result Report/Laporan Hasil Pemeriksaan (LHP), which has been confirmed previously with the bank, to be submitted to the bank or a Representative Office of the bank domiciled abroad. The LHP contains steps for improvement or refinement of the findings of the examination to be undertaken by the Bank and reported back to OJK.

6. **Recovery Plan for Systemic Banks**

This OJK Regulation contains provisions concerning the obligation of any systemic bank to prepare the plan for preventing and overcoming financial problems that may occur in a Systemic Bank by preparing a Recovery Plan.
With the existence of the Recovery Plan, the efforts to resolve a bank’s financial problems have been started since the time when the bank is in normal condition but significant problems already exist.

Any Systemic Bank is obliged:

a. to prepare and submit an recovery plan (RP) to OJK. Submission of the RP should be signed by the president director, the president commissioner and the Controlling Shareholder, after prior approval by the Board of Commissioners and the shareholders in the Shareholder General Meeting (SGM). The first RP submission shall be no later than:
   1) December 29, 2017 for Banks designated as Systemic Banks before this OJK Regulation becomes effective, and
   2) six months after being determined to be as a Systemic Bank for any Bank designated as a Systemic Bank on or after the OJK Regulation becomes effective

b. to have debt or investment instruments that have capital characteristics. The fulfilment of such debt or investment instruments shall be done no later than:
   1) December 31, 2018 for Banks designated as Systemic Banks before this OJK Regulation becomes effective, and
   2) 18 months after respective RPs are received in full by OJK for Banks designated as Systemic Banks on or after the OJK Regulation becomes effective

c. to perform implementation, evaluation and testing (stress testing), as well as updating of the RP.
   1) The RP should be implemented when the specified trigger level is met.
   2) Evaluation and testing should be conducted periodically, at least once a year or under certain conditions which will have significant effects on the Bank.
   3) Updating of the RP should be made periodically, at least once a year.
Each Systemic Bank should have an RP guide which contains the roles and responsibilities of the parties concerned with the RP and an RP implementation procedure, which is prepared by taking into account the principles of good governance at the Bank.

7. Bridge Bank

This OJK Regulation stipulates the provision concerning the procedure for establishing a bridge bank. A Bridge Bank is a commercial bank established by the Indonesia Deposit Insurance Corporation (LPS) to be used as a resolution vehicle by accepting the transfer of a portion or all of the assets and/or liabilities of the bank being handled by the LPS, which then conduct banking business activities, and transfer its ownership to another party.

General principles for the establishment of a Bridge Bank:

a. A Bridge Bank may only be established and conduct business activities after obtaining a license from Indonesia Financial Service Authority.
b. 1 (one) Bridge Bank may be used to receive transfers of assets and/or liabilities of more than 1 (one) bank.
c. A Bridge Banks may use the infrastructure of the Original Bank (office networks, human resources, information technology, work procedures, etc.)
d. A Bridge Bank may only accept the transfer of a portion or all of the assets and/or liabilities of the Original Bank that has certain criteria.

The form of the Bridge Bank can be:

a. A Bridge Bank that conducts business activities as a Conventional Commercial Bank.
b. A Bridge Bank that conducts business activities as a Sharia Commercial Bank.

The provision of the establishment license for a Bridge Bank can be undertaken in two stages, namely:
a. Approval in principle, which is an approval to undertake preparation for the establishment of the Bridge Bank; and
b. Business License, which is a license allowing the
c) Under financial system crisis condition, the LPS may simultaneously submit requests for approval in principle and business license for the Bridge Bank.

In conducting its business activities, an Intermediary Bank should comply with all regulations applicable on banks except stipulations specifically provided in this OJK Regulation, namely:

a. Supervision status (bank under intensive supervision or bank under special surveillance) shall not be granted, however, the bank is still required to implement supervisory measures set by the OJK.

b. Calculation of core capital fulfilment shall not be applied in regard existing business activities/products and office networks.

The Bridge Bank is no longer an Bridge Bank in the event that LPS sells the Bridge Bank’s shares to another party or transfers all of the Bank’s assets and/or liabilities to another bank or party.

There are 4 alternatives for transferring assets and/or obligations from an Original Bank to a Bridge Bank, as follows:

1. Alternative 1
   a. A Bridge Bank, which conducts business activities in the form of a Conventional Commercial Bank, receives a transfer of assets and/or liabilities from an Original Bank, which is a Conventional Commercial Bank; or
   b. A Bridge Bank, which conducts business activities in the form of a Sharia Commercial Bank, receives a transfer of assets and/or liabilities from an Original Bank, which is a Sharia Commercial Bank.

2. Alternative 2
   A Bridge Bank, which conducts business activities in the form of a Conventional Commercial Bank,
receives a transfer of assets and/or liabilities from more than one Original Banks, which are Conventional Commercial Banks; or

3. Alternative 3
A Bridge Bank, which conducts business activities in the form of a Sharia Commercial Bank, receives a transfer of assets and/or liabilities from more than one Original Banks, which are Sharia Commercial Banks.

4. Alternative 4
a. A Bridge Bank, which conducts business activities in the form of a Conventional Commercial Bank, receives a transfer of assets and/or liabilities from one or more Conventional Commercial Banks that own Sharia Business Units.

b. A Bridge Bank, which conducts business activities in the form of a Sharia Commercial Bank, receives a transfer of assets and/or liabilities from Sharia Business Units owned by one or more Conventional Commercial Banks that own Sharia Business Units.

Figure 4.6. Illustration of Alternatives for Transfers of Asset and/or Liabilities from an Original Bank to a Bridge Bank

Note: CCB (Conventional Commercial Bank), SCB (Sharia Commercial
Bank), SBU (Sharia Business Unit), CBB (Conventional Bridge Bank), and SBB (Sharia Bridge Bank)

F. Regulation Concerning Consumer Education and Protection

1. Financial Literacy and Inclusion
   Along with enthusiasm of the government to increase Financial Literacy and Inclusion, which is incorporated into Government Regulation Number 82 of 2016 concerning National Strategy for Financial Inclusion, OJK has issued a regulation that obliges banks to perform Financial Literacy and Inclusion activities. This regulation is expected to enhance the Indonesian public’s knowledge, understanding, and access to financial institutions, products, and services. Each bank that has Customers has the obligation submit a report on the plan for education and implementation of education each year.

2. Settlement of Consumer Complaints
   A bank is obliged settle each complaint lodged by Consumers and/or Consumer representatives. The bank should have and implement a mechanism for Consumer complaint servicing and settlement, which covers:
   a. Procedure for complaint servicing and settlement, which at least covers the following:
      1) implementation of the principles of accessibility, independence, fairness, efficiency, and effectiveness;
      2) implementation of the receipts of Consumer complaints through various ways, among others face-to-face meetings, e-mails, and letters, however, not including complaints submitted through notifications in the mass media;
      3) the bank should immediately follow up and settle complaints no later than twenty working days;
      4) under certain conditions, the bank may extend the period up to no longer than the next
twenty working days;

5) the certain conditions referred to in point d) are:
   a) bank office that receives the complaint is not the same bank office where the problem complained occurs and there is a communication problem between the two bank offices;
   b) the financial transaction complained by the Consumer requires special investigation on bank's documents; and/or
   c) there are other matters outside the bank's control, such as the existence of involvement of a third party outside the bank in the financial transaction conducted by the Consumer.

6) procedure for communicating with the Consumers, which covers at least:
   a) procedure for complaint servicing and settlement in a format that is easily understood and accessed by the Consumers; and
   b) an offer for settlement, in the event, based on results of the analysis and evaluation performed by the bank, the complaint is caused by an error on the part of the bank.

7) keeping confidential information concerning Consumers who have lodged complaints to any party, except:
   a) to OJK;
   b) for the purpose of settling the complaints;
   c) when obliged by the provisions of legislations; and/or
   d) at the approval of the Consumer.

b. The bank should provide complaint servicing and settlement with the following requirements:
   1) apply treatments that are balanced and
objective on each complaint;
2) provide adequate opportunities to Consumers for giving explanations on the substances of the complaints; and
3) provide opportunities to other parties, who have interests on the complaints, for giving explanations in the settlement of the complaints (if any);
c. The bank is prohibited from charging costs on complaint servicing and settlement.
d. The bank should administer complaint servicing and settlement. The administration should contain information concerning at least:
   1) consumer identity;
   2) substances of the complaint; and
   3) actions taken to settle the complaint.
e. The bank should provide information on the statuses of Consumer complaints through various communication facilities provided by FSI, such as among others through websites, letters, e-mails, or telephones.
f. The bank and Consumers can monitor progress of the Handling statuses of Complaints lodged by the Consumers to OJK through the Financial Services Sector – Integrated Consumer Service System.
g. OJK may request or access progress of the Handlings of Complaints lodged by the Consumers to the FSI.

3. **Marketing of Products and/or Services**

In connection with the effort to give the opportunity for banks to market products and/or services in a fair, efficient, and transparent manner that may reduce the potential for losses to the Consumers due to misunderstanding/vagueness/errors on information provided, OJK regulates the marketing of bank products/services. Several matters stipulated are:
1) ensure that the Consumers have good intentions;
2) main points of the stipulation concerning information on products and/or services;
3) stipulation concerning information contained in
advertisements in the media;
4) bank information service;
5) preparation of summary information on products and/or services;
6) third parties that act on behalf of the bank;

4. **Standard Agreements**
   In the context of stepping up bank’s awareness of the importance of Consumer protection in ownerships of products and/or utilizations of services that have agreements between the Consumers and banks, OJK stipulates a clause on standard agreements and formats of standard agreements.
   The referred agreements between Consumers and banks are in general developed in the form of Standard Agreements set unilaterally by the banks, which contain standard clauses concerning the contents, formats, as well as method of developing, and are used for offering products and/or services to Consumers at large.

5. **Confidentiality of Consumer Personal Data and/or Information**
   One of the objectives of Consumer protection in the Financial Services Sector is to step up banks’ awareness of the confidentiality of Consumer personal data and/or information. As such, OJK regulates that banks are prohibited in any way to give the personal data and/or information of their Consumers to third parties, except when the Consumers give written approvals and/or when obliged by the provisions of legislations

G. **Other Regulation’s**
   1. **Rating Institutions and Ratings Acknowledge by Indonesia Financial Services Authority**
      Rating institutions acknowledged by OJK are rating institutions that meet assessment aspects as follows: (i) assessment criteria; and (ii) publication media and scope of disclosure.
      Assessment criteria that has to be met covers the criteria of independence, objectivity, public disclosures, rating transparency, resources, and credibility of the rating institution. Meanwhile, publication media and
scope of disclosure regulate the obligation of the rating institutions to have websites and to disclose all information that should be publicized. On the list of acknowledged rating institutions and ratings, OJK performs updating based on results of assessment and monitoring on the fulfilment of the set assessment aspects.

Rating institutions can be taken out from the list of rating institutions and ratings acknowledged by OJK based on:

1) results of OJK’s assessment, in the event a rating institution is no longer meeting the set assessment aspects or commits other violations; and/or
2) at the request of the rating institution. The removal of a rating institution at its own request can be done by meeting certain procedure and the rating institution has settled all its obligations.

The list of rating institutions and ratings acknowledged by OJK is publicized through OJK’s website. A bank is still obliged to perform assessment and is fully responsible for the use of the rating results of any rating institution acknowledged by OJK.

2. Certification Institutions for Rural Banks/Sharia Rural Banks

a. The objectives of the establishment of Certification Institutions are:

1) to ensure quality of the certification system;
2) to ensure implementation of the certification system; and
3) to enhance the quality and professional capacity of RB/SRB human resources.

b. Requirements that have to be met by Certification Institutions are:

1) have vision and missions for enhancing and developing RB human resources to support the realization of RB/SRB industries that are sound, strong and efficient;
2) have organs comprising at least: Certification Board, National Curriculum Committee, and Management;
3) have and implement tasks based on competency and commitment for arranging, determining, and developing certification system.

3. Bank Secrecy
Bank secrecy refers to everything that is connected with explanations on depositors and their deposits. Explanations on customers other than depositors and their deposits do not constitute explanations that banks should keep confidential. This regulation is applicable also in regard affiliated parties. The regulation on bank secrecy does not apply:

a. in regard tax purposes;
b. in regard settlement of bank receivables that have been handed over to Agency for the Management of State Receivables and Auctions/Badan Urusan Piutang dan Lelang Negara (BUPLN) or Committee for the Management of State Receivables/Panitia Urusan Piutang Negara (PUPN);
c. in regard the interest of justice in criminal cases;
d. in regard the interest of justice in civil cases between a bank and its customers;
e. in regard information exchanges between banks;
f. at the written requests, consents or authorizations of the depositors;
g. at the request of legal heir of a deceased depositor; and
h. in regard investigations related to money laundering.

Implementation of the provisions in letters a, b, and c should first obtain written instructions or permissions to disclose bank secrecy from the leadership of OJK, while implementation of the provisions in letters d, e, f, g, and h does not require such instructions or permissions.

4. Submission of Customer Information related to Taxes
For the purpose of supporting the effort to prevent tax avoidance, tax evasion, and for stepping up the
compliance of Indonesian Citizens domiciling in other countries to the fulfilment of Indonesian tax regulations and vice versa, cooperation and coordination is required between the Indonesian Government and the governments of other countries or jurisdictions.

The form of coordination undertaken to support this effort is an activity of the exchanges of financial information of tax payers with other countries through a mechanism of international agreement, both bilateral as well as multilateral.

One of the parties that has an important role in the submission of such information are FSI, which are the places for deposits or investments and financial services for the customers who are tax payers of Partner Countries or Partner Jurisdictions.

There are three types of these exchanges of information, namely:

a. information exchange based on request, in which there is a prior request on certain tax payers;

b. spontaneous information exchange, in which one of the countries has the initiative to report certain tax payers; and

c. automatic information exchange, in which submission of the financial information of tax payers is not based on requests or initiatives but rather based on the fulfilment of tax payer criteria stated in agreements between countries performed through an agreed system, submitted periodically and continuously.

Automatic information exchange may be conducted when there are voluntary statements from customers, who are the tax payers of Partner Countries or Partner Jurisdictions. An agreement between countries for the purpose of conducting automatic information exchanges covers among others: procedure for conducting due diligence, types of information exchanged, reporting periods (periodic), and timing for report submission. The government has enacted a Minister of Finance Regulation Number
125/PMK.010/2015 dated 7 July 2015, which enables FSI to submit financial information of customers, who are tax payers of Partner Countries or Partner Jurisdictions, to the tax authority in Indonesia and tax authorities in Partner Countries based on voluntary written consents from the customers, who are tax payers of Partner Countries or Partner Jurisdictions, to the FSI.

FSI, which meet the criteria of having the obligation to submit foreign customer information (in accordance with automatic information exchange agreements), should:

a. perform identification of customers or candidate customers to ensure that the customers or candidate customers concerned meet the criteria of foreign customers or foreign candidate customers;

b. request required information and/or documents for the purpose of verifying whether the customers or candidate customers meet the criteria of foreign customers or foreign candidate customers;

c. request the foreign customers or foreign candidate customers to submit statements of consents, instructions or provide written and voluntary authorizations to the FSI for providing information of the foreign customers and/or foreign candidate customers to the Indonesian tax authority to be forwarded to the tax authorities of the Partner Countries or Partner Jurisdictions; and

d. perform screening of foreign customers, who own account balances or values of at least the same as set in the automatic information exchange agreements.

Information on foreign customers submitted shall cover at least customer information and financial information of customers who have account balances or values in accordance with the automatic information exchange agreements.

5. Authority on Criminal Investigations in Financial Services Sector
Based on OJK Regulation Number 22/POJK.01/2015 concerning Criminal Investigations in Financial Services Sector, a few points are explained as follows:

a. OJK has the authority to conduct Criminal Investigations in FSS;

b. the authority on criminal investigations in FSS is executed by OJK’s Investigators;

c. OJK’s investigators comprise:
   1) Investigating Officers of the Republic of Indonesia’s Police assigned to OJK; and/or
   2) Civil Servant Officers assigned to OJK and are given special authority as Investigators.

d. OJK’s investigators have the authority to conduct investigations in accordance with the provisions concerning Investigation stipulated in Act Number 21 of 2011 concerning OJK and Investigation in accordance with the provisions stipulated in Act Number 8 of 1981 concerning Criminal Law and other Acts that give authorities to RI’s Police Investigators; and

e. any party may submit a report and/or information concerning suspicion of Crime in Financial Services Sector by submitting it in writing and/or directly come to the OJK.

6. **Use of the Services of Public Accountants and Public Accounting Firms in Financial Service Activities**

This regulation is an integrated OJK Regulation that regulates the use of the services of Public Accountants (PAs) and Public Accounting Firms (PAF), which was previously regulated by sector. This OJK Regulation regulates the financial services sector concerning:

a. Obligation to use PA and PAF that are already registered at the OJK and have the competencies in line with the business complexities.

b. Appoint PA and PAF through the Shareholder General Meeting (SGM) by considering the proposal of the board of commissioners as a form of good governance implementation.

c. Enhance the role of audit committee to be more
intensive in the process of recommending PA and PAF to the board of commissioners (pre-audit) as well as in evaluating results of the post-audit performance of PA and PAF.

d. To limit the use of audit services on annual historical financial information from the same PA for a maximum of 3 consecutive accounting years and in regard PAF, it shall depend on results of the evaluation of the Audit Committee on the implementation of the provision of audit services by PA and/or PAF.

e. Obligation to submit annual periodic report on appointments of PA and/or PAF and evaluation results of the Audit Committee on the implementation of the provision of audit services by PA and/or PAF, offline to the related Supervision Work Unit at OJK.

In addition to the financial services sector, the OJK Regulation also regulates PA and PAF concerning:

a. Meet the independency condition in the provision of services to Parties which Conduct Financial Service Activities during the audit period and the assignment period refers to the code of ethics of the public accounting profession.

b. Submit online to OJK the annual periodic report in the form of recapitulation of services provided to Parties which conduct Financial Service Activities and incidental report in the form of data changes of PA and/or PAF.

c. Report offline to the relevant Supervision Work Unit at OJK when there is information concerning significant violations / weaknesses and/or conditions / predicted conditions that may jeopardize the business continuity of Parties which Conduct Financial Service Activities.

7. Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies

This OJK Regulation is issued as a specific and binding regulation for all financial services sector’s actors in
order to materialize a financial system that applies the principles of sustainable finance. Sustainable Finance is a comprehensive support of the financial services sector to create sustainable economic growth by harmonizing economic, social, and environmental interests. The OJK Regulation is also an implementation of Act Number 32 Year 2009 concerning Environmental Protection and Management to develop and implement environmental economic instruments including socially and environmentally-concerned policies in the banking, capital market and non-bank financial industry sectors.

Objectives of the implementation of Sustainable Finance are:

a. to provide the necessary funding sources to achieve sustainable development objectives and climate change-related funding in adequate amount;

b. to enhance the resilience and competitiveness of FSIs, Issuers, and Public Companies through better management of social and environmental risks by developing financial products and/or services that apply the principles of Sustainable Finance so as to be able to contribute positively to the financial system stability;

c. to reduce social inequalities, reducing and preventing environmental degradation, maintaining biodiversity, and promoting efficient use of energy and natural resources; and

d. to develop financial products and/or services that apply the principles of Sustainable Finance.

In conducting their business activities, FSIs, Issuers and Public Companies are required to apply the principles of sustainable finance, which include:

1) Principle of responsible investment

2) Principle of sustainable business strategies and practices

3) Principle of social and environmental risks management

4) Principle of governance
5) Principle of informative communication  
6) Principle of inclusivity  
7) Principle of priority sector development  
8) Principle of coordination and collaboration.

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<th>Scope</th>
<th>1 JAN 2019</th>
<th>1 JAN 2020</th>
<th>1 JAN 2022</th>
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<td><strong>Bank</strong></td>
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<td>Commercial Bank</td>
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<td>BUKU 3, BUKU 4, and Foreign Bank</td>
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<td>BUKU 1 and BUKU 2</td>
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<td>Rural Bank</td>
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<td>Rural Banks based on Business Activity (BPRKU) 3 including BPRS having core capital equivalent to BPRKU 3</td>
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<td>BPRKU 1 and BPRKU 2 and SRB which have core capital equivalent to BPRKU 1 or BPRKU 2</td>
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<td><strong>Capital Market</strong></td>
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<td>Public Company</td>
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<td>Securities companies that administer clients' securities accounts, and Issuers with medium-scale assets</td>
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<tr>
<td>Issuers with small-scale assets, securities companies that do not administer client securities accounts</td>
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<td><strong>Non-Bank Financial Institution</strong></td>
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<td>Financing companies, sharia financing companies, venture capital firms, sharia venture capital firms, infrastructure finance companies, insurance companies, sharia insurance companies, reinsurance companies, reinsurance companies, Indonesian Export Financing Institutions, housing secondary finance companies, Social Security Administering Bodies</td>
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<td>Companies of pawnshops, guarantee companies, and sharia guarantee companies</td>
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<td>Pension funds with total assets of at least Rp1,000,000,000,00,00 (one trillion)</td>
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In this regulation, FSI are obliged to develop:

a. A Sustainable Finance Action Plan to be submitted annually to OJK;
   1) At the same time as the submission of business plan of any FSI that is obliged to submit a business plan as part of the business plan or in a separate document; and
   2) no later than 31 January for any FSI that is not obliged to submit a business plan.

A Sustainable Finance Action Plan is developed based on the priorities of each FSI and at least contains:
   1) Development of Sustainable Financial Products and/or Services, including enhancement of financing portfolios, investments or placements in financial instruments or projects in line with the application of Sustainable Finance;
   2) Development of the FSI’s internal capacity; or
   3) Adjustments to the FSI’s organization, risk management, and governance, and/or operational procedure (standard operating procedure) in line with the principle of Sustainable Finance application.

b. Sustainability Report that is prepared separately from the Annual Report or as part of an inseparable part of the Annual Report. The Sustainability Report shall be submitted no later than the prevailing deadline for the annual report submission for each FSI, Issuer, and Public Company. First time submission of the Sustainability Report shall be for the reporting period:
### Table 4.14. Periods of Sustainability Reports

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<td>BUKU 1 and BUKU 2 Commercial Banks, financing companies, sharia financing companies, venture capital companies, sharia venture capital companies, infrastructure financing companies, insurance companies, sharia insurance companies, re-insurance companies, sharia re-insurance companies, Indonesian Export Financing Institutions, housing secondary financing companies, Social Security Organizing Agencies/Badan Penyelenggara Jaminan Sosial, Issuers other than Issuers with small-scale assets and Issuers with medium-scale assets, as well as Public Companies</td>
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<td>1 January up to 31 December 2022</td>
<td>RBs based on Business activity (BPRKU) 3, including SRBs that have core capitals equivalent to BPRKU 3, security companies that administer customer security accounts, and Issuers with medium-scale assets</td>
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<td>1 January up to 31 December 2024</td>
<td>BPRKU 1 and BPRKU 2 as well as SRBs that have core capitals equivalent to BPRKU 1 or BPRKU2, Issuers with small-scale assets, security companies that do not administer customer security accounts, pawn companies, guarantor companies, and sharia guarantor companies</td>
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<td>1 January up to 31 December 2025</td>
<td>Any pension fund with a total assets of no less than Rp1,000,000,000,000,000.00 (one trillion rupiah)</td>
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### 1. List of OJK Regulations Conversion Results from BI Regulation

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<td>Business Activities and Office Networks Based On Bank Core Capital</td>
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## 2. List of Banking That are Still in Force

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<td>- Commercial Bank Branch Office Closing</td>
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<td>TOPIC</td>
<td>REGULATION NUMBER*)</td>
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| - Rural Bank Branch Office Closing | Commissioners of Rural Banks and Sharia Rural Banks  
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| 4 - Sharia Rural Bank (SRB) Establishment  
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- Sharia Rural Bank Management and Human Resources  
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- Sharia Rural Bank Branch Office Closing | OJK Regulation No. 44/POJK.03/2015 dated 29 December 2015 concerning Competency Certification For Members of Board of Directors and Members of Board of Commissioners of Rural Banks and Sharia Rural Banks  
- BI Regulation No. 11/23/PBI/2009 dated 1 July 2009 concerning Sharia Rural Banks |
| 5 Sole Ownership In Banks In Indonesian | OJK Regulation No. 39/POJK.03/2017 dated 12 July 2017 concerning Sole Ownership In Banks In Indonesia |
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| 11. Foreign Bank Branch Office and Foreign Bank Representative Office Opening | - OJK Regulation No. 55/POJK.03/2016 dated 9 December 2016 concerning Implementation of Good Corporate Governance For Commercial Banks  
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| 2 Rural Bank Core Capital                                           | - OJK Regulation No. 5/POJK.03/2015 concerning Rural Bank Minimum Capital Adequacy Requirement and Fulfilment of Minimum Core Capital  
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*The numbers in the regulation numbers correspond to the regulations mentioned in the text.*
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OJK Regulation No. 51/POJK.03/2017 dated 18 July 2017 concerning Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies

Explanation:
*) The list of the banking regulation above is OJK Regulation, BI Regulation, and BI Letter Decree that still in force.

3. **Entity’s Termination by Task Force Investment Alert**

Task force for Investment Alert has discontinued the business activities of 80 entities. Discontinuation of these entities activities is intended to give legal assurance to the public that these entities did not have licenses and had the potential to cause losses to the public. The following is a list of the name of those 80 entities.

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<td>PT Konter Kita Satria</td>
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<td>Koperasi Budaya Karyawan Bank Bumi Daya Cabang Pekanbaru</td>
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<td>PT Istana Bintang Universal</td>
<td>Entrepreneurship and e-commerce</td>
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<td>PT Papan Agung Solution</td>
<td>Home Ownership</td>
</tr>
<tr>
<td>71</td>
<td>PT Azra Fakhri Servistama</td>
<td>Cash Custodianship</td>
</tr>
</tbody>
</table>
In addition, throughout the year 2017, the Task Force for Investment Alert has legally processed 12 entities as follows:

<table>
<thead>
<tr>
<th>No</th>
<th>Name of Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pandawa Group Depok</td>
</tr>
<tr>
<td>2</td>
<td>PT Cakrabuana Sukses Indonesia (PT CSI) Cirebon</td>
</tr>
<tr>
<td>3</td>
<td>Dream for Freedom (D4F)/NESI/Loketnesia/Promonesia</td>
</tr>
<tr>
<td>4</td>
<td>Wein Group Kupang</td>
</tr>
<tr>
<td>5</td>
<td>PT Compact Sejahtera Group, Compac 500 or Koperasi Bintang Abadi Sejahtera or ILC</td>
</tr>
<tr>
<td>6</td>
<td>UN Swissindo</td>
</tr>
<tr>
<td>7</td>
<td>PT Crown Indonesia Makmur</td>
</tr>
<tr>
<td>8</td>
<td>PT Inti Benua Indonesia</td>
</tr>
<tr>
<td>9</td>
<td>Royal Sugar Company</td>
</tr>
<tr>
<td>10</td>
<td>Talk Fusion</td>
</tr>
<tr>
<td>11</td>
<td>First Travel</td>
</tr>
<tr>
<td>12</td>
<td>PT Mi One Global Indonesia</td>
</tr>
</tbody>
</table>

Explanation: Entities number 1 up to 4 have been under legal processes in 2017, however discontinuation of their business activities were applies in 2016. Meanwhile, in regard the other 8 entities, discontinuation of business activities and legal processes were applied in the same year, namely 2017.
4. Banking Cases that Already Have Permanent Legal Force (inkracht) throughout 2017

<table>
<thead>
<tr>
<th>No</th>
<th>Case</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>In period of 2011 to 2014, Head of Credit Section and Head of Credit Sub-Section of a RB were alleged to have made or caused false records through the processing of credit provisions by using and amending documents/photocopies of documents owned by other parties, of as many as 120 fictitious debtors with a total ceiling of Rp. 2,263,500,000. The loan disbursement funds were used by the suspects to fund their businesses which involve provision of fund lending to the public.</td>
<td>Decision of the District Court of Cirebon Regency No: 221/Pid.B/2017/PN.Sbr. Court ruling: Five year imprisonment for each individual and a fine of Rp. 10 billion in exchange of five-month prison time.</td>
</tr>
<tr>
<td>2.</td>
<td>In the period of 2012 until March 2015. Head of Credit Section was alleged to have misuses credit installment payments/full repayments of 59 debtor accounts totaling Rp. 125,286,700. Such action caused such installment payments/full repayments of credits not to be recorded in the books or in the reports, transactions or accounts of a Bank. Head of Credit Section used the funds from debtors to cover credits in arrears in the first case.</td>
<td>Verdict of the District Court Lubuk Pakam No: 1632/Pid.Sus/2017/PN Lbp Court ruling: imprisonment of the defendant for six years, a fine of Rp. 10 billion in exchange of two-month prison time.</td>
</tr>
<tr>
<td>2.</td>
<td>The president Director of a RB deliberately provided credit facilities to 34 debtors amounting to Rp. 3,210,000,000,- which deviated from the banking regulations.</td>
<td>Verdict of the District Court Lubuk Pakam No: 1632/Pid.Sus/2017/PN Lbp Court ruling: imprisonment of the defendant for six years, a fine of Rp. 10 billion in exchange of two-month prison time.</td>
</tr>
<tr>
<td>No</td>
<td>Case</td>
<td>Decision</td>
</tr>
<tr>
<td>----</td>
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</tr>
<tr>
<td>3.</td>
<td>The President Director of a RB deliberately created or caused the provision of fictitious credits resulting in bank’s bookkeeping not to be in accordance with the actual situation and not to be in accordance with the principles of sound banking practice.</td>
<td>Decision of the Sleman District Court No: 457/Pid.sus/2017/PN Smn Court ruling: Five years imprisonment and a fine of Rp. 10 billion in exchange of three-month prison time.</td>
</tr>
<tr>
<td>4.</td>
<td>During the period from March 18, 2013 up to January 28, 2016, a junior bank credit administration analysts extended employee credit facilities to 75 debtors. In the process of granting such credit facilities, irregularities were found in regard banking regulations with a total deviation of Rp. 2.330 million as follows: 1. Processing credit disbursement of seven debtors with a total ceiling Rp. 765 million directly through the banking system 2. Increasing credit limits for 47 debtors with a total of Rp. 515 million without the knowledge of the relevant debtors 3. Not repaying the debit balances of old credits with additional credit limits (top up) of 12 debtors with a total amount of 807 million, causing the debtors to be recorded as having two credit facilities when actually each of them only gets the benefit of one facility 4. Receiving credit repayment funds from nine debtors with a total amount of Rp. 257 million, but the funds were not deposited into debtors’ accounts to pay off the credits, instead the funds were used for personal benefit of the person concerned</td>
<td>Verdict of Tanjung Karang District Court No: 1267/Pid.B/2017/PN.Tjk Court verdict: Defendant was sentenced to five year imprisonment and a fine of a Rp. 10 billion.</td>
</tr>
</tbody>
</table>
## 5. Popular Terminologies in Banking Industry

<table>
<thead>
<tr>
<th>Terminology</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative Dispute Resolution Bodies</td>
<td>Independent bodies that provide out-of-court dispute settlement services.</td>
</tr>
<tr>
<td>Anjungan Tunai Mandiri (ATM)</td>
<td>Machines operated with a computer system that are activated by the use of bank coded magnetic cards. Through use of the machines, customers can save money, withdraw cash, transfer funds between accounts, and other routine transactions.</td>
</tr>
<tr>
<td>Bancassurance</td>
<td>Cooperation activities between a bank and an insurance company for the purpose of marketing insurance products through the bank.</td>
</tr>
<tr>
<td>Bank business plan</td>
<td>A written document that describes bank’s shortterm (one year) and medium-term (three years) business activity plan, including a plan for stepping up business performance as well as strategies for realizing the bank business plan in accordance with the set targets and time, by yet observing fulfilment of the prudential regulations and implementation of risk management.</td>
</tr>
<tr>
<td>Bank Guarantee</td>
<td>A written statement of capability provided by a bank to a party receiving the guarantee that the bank will pay a certain time if the party, for whom the bank makes the guarantee, does not fulfil an obligation.</td>
</tr>
<tr>
<td>Bank Indonesia National Clearing System (SKNBI)</td>
<td>The BI clearing system that covers debit clearings and credit clearings which final settlements are performed at national level.</td>
</tr>
<tr>
<td>Bank Information System (SIP)</td>
<td>An information system used by bank supervisors in conducting analyses on bank condition, assessment of Bank Soundness Level by using the risk approach/Risk Based Bank Rating (RBBR), accelerates access to information on bank financial conditions, steps up the security and integrity of banking data and information.</td>
</tr>
<tr>
<td>Beneficiary</td>
<td>A party that receives benefits from properties/funds.</td>
</tr>
<tr>
<td>Bilyet</td>
<td>Forms, notes and other written evidences that can prove the validity of transactions, which contain explanations or instructions to pay.</td>
</tr>
<tr>
<td>Capital Conservation Buffer</td>
<td>An additional capital that functions as a buffer at the occurrence of losses during crisis period.</td>
</tr>
<tr>
<td>Capital Surcharge</td>
<td>An additional capital which functions to reduce negative impact on the financial system stability and the economy in the event of a failure on the part of a bank that has systemic impact through a step up in the bank capacity to absorb losses.</td>
</tr>
<tr>
<td>Certificate of Bank Indonesia (SBI)</td>
<td>Securities denominated in rupiah issued by BI as short-term debt acknowledgements and constitute one of the devices of Open Market Operation.</td>
</tr>
<tr>
<td>Certificate of Interbank Commodity Trade based on Sharia Principles (SIKA)</td>
<td>Certificates issued based on Sharia Principles by a SCB or a SBU in Sharia Interbank Money Market transactions that are proofs of selling-buying with deferred payments on commodity trading at the bourse.</td>
</tr>
<tr>
<td>Check (Cheque)</td>
<td>A written instruction from a customer to a bank for the withdrawal of a certain amount of funds to be paid to the customer or the bearer.</td>
</tr>
<tr>
<td>Terminology</td>
<td>Explanation</td>
</tr>
<tr>
<td>-------------------------------</td>
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</tr>
<tr>
<td>Clawback</td>
<td>An agreement between a bank and members of the Board of Directors, members of the Board of Commissioners, or employees in which the member of the Board of directors, members of the Board of Commissioners or Employees agree to return Variable Remunerations received as long as certain criteria is met as determined by the Bank.</td>
</tr>
<tr>
<td>Clearing</td>
<td>An exchange of drafts and/or Electronic Financial Data between clearing participants, both on behalf of the participants as well as on behalf of the participants’ customers, which calculation result should be settled at a certain time.</td>
</tr>
<tr>
<td>Collateral</td>
<td>A guarantee handed over by a debtor to a bank for the purpose of credit or financing facility extension.</td>
</tr>
<tr>
<td>Commercial Bank</td>
<td>A bank that conduct business activities in the conventional manner and/or based on sharia principles and in conducting its activities provides services in payment flows.</td>
</tr>
<tr>
<td>Complaint</td>
<td>An expression of consumer dissatisfaction due to a financial loss and/or potential loss for the Consumer, which is suspected to have been caused by an error or negligence on the part of the Financial Service Institution.</td>
</tr>
<tr>
<td>Compliance Based Supervision (CBS)</td>
<td>Monitoring of a bank's compliance to regulations related to bank operation and management in the past with the objective of ensuring that the bank has operated and been managed properly and correctly based on prudential principle.</td>
</tr>
<tr>
<td>Consumer Protection</td>
<td>Protection for the Consumers with the coverage of the Financial Service Institution's behavior.</td>
</tr>
<tr>
<td>Consumers</td>
<td>Parties that place their funds and/or utilize services provided at a FSI comprising among others customers at a Bank, investors at the Capital Market, policy holders at an insurance company, and participants in a Pension Fund, based on the legislations in the Financial Services Sector.</td>
</tr>
<tr>
<td>Controlling Shareholder</td>
<td>A Controlling Shareholder can be a legal entity, an individual person, and/or a business group that owns shares or share equivalence in an FSI and has the capacity to exercise control over the FSI.</td>
</tr>
<tr>
<td>Countercyclical Buffer</td>
<td>An additional capital that functions as an anticipative measure against losses in the event of excessive banking credit growth which has the potential of disrupting the financial system stability.</td>
</tr>
<tr>
<td>Credit Bureau/Lembaga Pengelola Informasi Perkreditan (LPPI)</td>
<td>Institutions/agencies that collect and process credit data and other data to generate credit information in accordance with the stipulations/regulations about LPPI.</td>
</tr>
<tr>
<td>Credit Card</td>
<td>Card issued by a bank or credit card provider company giving the right to individual persons that meet certain requirements, whose names are specified on the cards, to use cards as a payment instrument on credit basis for acquiring goods or services or for withdraw cash within the credit limits set by the bank or credit card provider company.</td>
</tr>
<tr>
<td>Terminology</td>
<td>Explanation</td>
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<tr>
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</tr>
<tr>
<td>Crimes in Financial Services Sector</td>
<td>Any criminal offence/event as stipulated in the Acts that regulate the OJK, Banking, Sharia Banking, Capital Market, Pension Funds, Micro Finance Institutions, Insurance, Indonesian Export Financing Institutions, Social Security Organizing Agencies, Bank Indonesia as long as it is related with an intervention in the implementation of OJK’s task in the regulating and supervising of banks, as well as the Act concerning Other Financial Services Institutions, as referred to in Law of the Republic of Indonesia number 21 of 2011 on Financial Services Authority.</td>
</tr>
<tr>
<td>Custodian Bank</td>
<td>A bank that acts as custodian. A custodian is a party that provides safe keeping services of a securities and other properties related to securities as well as other services, including receiving dividends, interest, and other rights as well as settling security transactions and representing account holders which are its customers.</td>
</tr>
<tr>
<td>Customer Due Dilligence (CDD)</td>
<td>Activities in the forms of identification, verification, and monitoring conducted by a bank to ensure that customers’ transactions are in line with the customers’ profiles. CDD is required to be performed when: (i) conducting business relationship with a candidate customer; (ii) conducting business relationship with a Walk in Customer, an authorized party, and/or beneficial owner; or (iv) there is an usual financial transaction that is related to money laundering and/or the funding of terrorism.</td>
</tr>
<tr>
<td>Debit Card</td>
<td>A card issued by a bank that can be used to pay for transactions and/or withdraw funds charged to the account of the concerned cardholder using PIN (Personal Identification Number).</td>
</tr>
<tr>
<td>Debtor Information (IDEB)</td>
<td>Information on Debtor, Fund Provision Facilities received by the Debtor, and other related information presented under the Debtor Report received by OJK from the Reporting Entity.</td>
</tr>
<tr>
<td>Deposit</td>
<td>A deposit which withdrawal may only be made at a certain time based on the agreement between the depositor and bank.</td>
</tr>
<tr>
<td>Dispute</td>
<td>A dispute between a Consumer and a FSI on a fund placement activity by the Consumer in the FSI and/or utilization of service and/or a product of the FSI after undergoing a process of Complaint settlement by the FSI.</td>
</tr>
<tr>
<td>Emerging Financing Facility</td>
<td>A financing facacility from BI, which is decided by KKS (Committe for Financial System Stability) and guaranteed by the Government, to a bank experiencing liquidity problem, which has systemic impact and crisis potential but still meets solvency level.</td>
</tr>
<tr>
<td>Enhanced Due Dilligence (EDD)</td>
<td>A deeper CDD action performed by a bank when conducting a relationship with a customer that is categorized as high risk, including Politically Exposed Person, against the possibility of money laundering and the funding of terrorism.</td>
</tr>
<tr>
<td>Financial Conglomerate</td>
<td>FSIs that belong within one group interlinked by ownership and/or control.</td>
</tr>
<tr>
<td>Financial Education</td>
<td>A series of processes or activities for enhancing Financial Literacy.</td>
</tr>
<tr>
<td>Terminology</td>
<td>Explanation</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
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</tr>
<tr>
<td>Financial Inclusion</td>
<td>Availability of access at various institutions to financial products and services in accordance with the needs and capacities of the public for the purpose of enhancing public welfare.</td>
</tr>
<tr>
<td>Financial Literacy</td>
<td>Knowledge, skills, and belief that influence attitude and behavior for enhancing decision making and financial management quality for the purpose of achieving welfare.</td>
</tr>
<tr>
<td>Financial Service Institutions (FSI)</td>
<td>Financial Service Institutions comprise Commercial Banks, Rural Banks, Security Companies, Investment Advisors, Custodian Banks, Pension Funds, Insurance Companies, Re-insurance Companies, Financing Institutions, Pawn Companies, and Guarantee Companies, which conduct business activities both in the conventional manner as well as based on sharia principles.</td>
</tr>
<tr>
<td>Financial To Value (FTV)</td>
<td>Ratio between the values of Financing extended by a bank against the value of the collateral in the form of property at the time of the extension of the Financing based on the latest evaluation result.</td>
</tr>
<tr>
<td>Fit and Proper Test</td>
<td>The process of assessing fulfillment of the requirements concerning the capability and appropriateness of prospective Main Party as mandated by the legislations applicable in each financial services sector.</td>
</tr>
<tr>
<td>Giro Wajib Minimum/GWM (Statutory Reserve)</td>
<td>Minimum funds that should be maintained by a bank which amount is set by Bank Indonesia in a certain percentage of Third Party Funds.</td>
</tr>
<tr>
<td>High Quality Liquid Assets (HQLA)</td>
<td>High Quality Liquid Assets comprise cash and/or financial assets that can easily be converted into cash with a little or without a decrease in value for the purpose of meeting a bank’s liquidity needs for the period of next 30 (thirty) days under stress scenarios.</td>
</tr>
<tr>
<td>Ijarah</td>
<td>A fund provision agreement for the purpose of transferring the right to use or benefits of a certain good or service based on lease transaction, without being followed by a transfer of ownership of the good.</td>
</tr>
<tr>
<td>Ijarah Muntahiyah Bit Tamlik (IMBT)</td>
<td>A fund provision agreement for the purpose of transferring the right to use or benefits of a certain good or service based on lease transaction, with the option of goods ownership transfer.</td>
</tr>
<tr>
<td>Indonesia Deposit Insurance Corporation/Lembaga Penjaim Simpanan (LPS)</td>
<td>A legal entity that operates guarantee activities on customers’ deposits.</td>
</tr>
<tr>
<td>Inkracht</td>
<td>Decisions that have permanent legal power.</td>
</tr>
<tr>
<td>Integrated Licensing and Registration System/Sistem Perizinan dan</td>
<td>An application used for submitting various types of licensing processes at OJK from all actors of the financial services industry under the authority of OJK.</td>
</tr>
<tr>
<td>Terminology</td>
<td>Explanation</td>
</tr>
<tr>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Registrasi Terintegrasi (SPRINT)</td>
<td>An evolution methodology on a financial conglomerate performed by integrated supervisors based on analyses of information obtained from individual supervisors and other information, by carefully observing the overall risks (group-wide).</td>
</tr>
<tr>
<td>Integrated Risk Rating (IRR)</td>
<td>A financing agreement on goods by way ordering the manufacture of certain goods with certain criteria and conditions agreed between the parties who places the order or buyer (mustashni’) and the seller or the party who manufactures the goods (shani’).</td>
</tr>
<tr>
<td><strong>Istishna’</strong></td>
<td>It is also called as Understanding The Conglomerate, which means a comprehensive understanding of the condition of the Financial Conglomerate in order to provide information and materials for analyses by Integrated Supervisors in the conduct of risk profile assessment and condition level of the Financial Conglomerate.</td>
</tr>
<tr>
<td>Know Your Financial Conglomerate (KYC)</td>
<td>The comparison between High Quality Liquid Assets (HQLA) and net cash outflow during the next 30 (thirty) days under stress scenarios.</td>
</tr>
<tr>
<td>List of Persons Who Do Not Pass</td>
<td>A list administrated by OJK containing parties who receive the predicate of not passing the fit and proper test who are stakeholders, controlling shareholder, members of board of commissioners, members of board of director, and executive officers.</td>
</tr>
<tr>
<td>Main Entity</td>
<td>The parent Financial Service Institution of the Financial Conglomerate or the Financial Service Institution assigned by the controlling stakeholder of the Financial Conglomerate.</td>
</tr>
<tr>
<td>Main Parties of FSI</td>
<td>Parties that own, manage, exercise oversight, and/or have significant influence over the Financial Service Institution.</td>
</tr>
<tr>
<td>Malus</td>
<td>Policies that allow banks under certain criteria to suspend partial or entire payments of deferred variable remuneration.</td>
</tr>
<tr>
<td>Market Conduct</td>
<td>The behavior of a Financial Service Institutions in designing, preparing, and conveying information, making offers, making agreements, on products and/or services as well as dispute settlements and complaint handling.</td>
</tr>
<tr>
<td>Mudharabah</td>
<td>A cooperation contract for a business between the first party (malik, shahibul mal, or a Sharia bank) that provides the entire capital and the second party (‘amil, mudharib, or Customer) that acts as the fund manager by sharing the business profits according to the deals set in the Contract, while the losses will be fully borne by the Sharia Bank, unless the second party commits a willful misconduct, negligence or violation against the agreement.</td>
</tr>
<tr>
<td>Murabahah</td>
<td>A financing agreement for an item by stating the purchase price to the buyer and the buyer pays the item at a higher price as the agreed profit.</td>
</tr>
<tr>
<td>Musyarakah</td>
<td>A cooperation contract between two parties or more for a particular business where each party provides a portion of funds under the condition that the profits will be shared according to the agreement, while the losses</td>
</tr>
<tr>
<td>Terminology</td>
<td>Explanation</td>
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<tr>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Net Foreign Currency Position</td>
<td>A number that constitutes the sum of the absolute value for the amount of the net difference of assets and liabilities in the balance sheet for each foreign currency added by the net difference of claims and obligations, which are both commitments as well as contingencies in the off-balance sheet accounts, for each foreign currency where all are stated in rupiah.</td>
</tr>
<tr>
<td>Net Stable Funding Ratio (NSFR)</td>
<td>Amount of available stable funding/ASF compared to amount of required stable funding/RSF. This standard is intended to reduce funding risk for a longer period of time by requiring a bank to fund its activities with adequate stable fund sources for the purpose of mitigating risk of funding pressure in the future.</td>
</tr>
<tr>
<td>Non-Office Based Financial Services for the purpose of Financial Inclusion (Laku Pandai)</td>
<td>Activities in the provision of banking services and/or other financial services conducted not through office networks but through cooperation with other parties and require the support of information technology facilities.</td>
</tr>
<tr>
<td>OJK Investigation</td>
<td>A series of actions by OJK Investigators in subjects and according to ways stipulated in the Act to seek and gather proofs and with those proofs shed light on the crimes that have occurred in the financial services sector and use those proofs to find the suspects.</td>
</tr>
<tr>
<td>OJK Investigators</td>
<td>Investigating Officers of the Republic of Indonesia’s Police and/or Civil Servant Officers given special authority as Investigators assigned at OJK to conduct Criminal Investigations in the Financial Services Sector as referred to in Law of the Republic of Indonesia number 21 of 2011 on Financial Services Authority.</td>
</tr>
<tr>
<td>PIN (Personal Identification Number)</td>
<td>A secret number given to a card holder (credit card, ATM card, debit card, etc.) which code may be given by the bank or financing company or self determined by the card holder.</td>
</tr>
<tr>
<td>Profit Sharing Ration/Nisbah Bagi Hasil</td>
<td>Profit sharing ratio between a Customer and Sharia Bank</td>
</tr>
<tr>
<td>Qardh</td>
<td>A fund loan agreement to a Customer under the condition that the Customer is obliged to return the funds received at the agreed time.</td>
</tr>
<tr>
<td>Recovery Plan</td>
<td>A Recovery Plan is a plan for resolving financial problems that may occur in a bank.</td>
</tr>
<tr>
<td>Remittance</td>
<td>Services to send money from one account owner to the other account owner or the same account owner, from one city to another city or to the same city, in rupiah currency or foreign currencies.</td>
</tr>
<tr>
<td>Risk Based Supervision (RBS)</td>
<td>Bank supervision that uses strategies and methodologies that are based on risks that enables bank supervisors to make early detection of significant risks and take appropriate and timely supervisory measures.</td>
</tr>
<tr>
<td>Settlor</td>
<td>Party that owns and puts assets into the custody of and to be managed by the Trustee.</td>
</tr>
<tr>
<td>Terminology</td>
<td>Explanation</td>
</tr>
<tr>
<td>-------------</td>
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</tr>
<tr>
<td>Sharia Certificate of Bank Indonesia (SBIS)</td>
<td>Short-term securities based on Sharia Principles, which are demoniated in rupiah and issued by BI.</td>
</tr>
<tr>
<td>Sharia Principles</td>
<td>Islamic law principles in banking activities based on fatwa issued by the institution that has the authority to set fatwa in the sharia field.</td>
</tr>
<tr>
<td>Sistem Layanan Informasi Perkreditan (SLIK)</td>
<td>A system that provides credit information, which is the result of the processing of debtor reports of both individuals and business entities, develop to support the implementation of supervisory tasks and information services in the field of finance.</td>
</tr>
<tr>
<td>Sister Company</td>
<td>Some FSI's are institutionally and/or legally separated, however, are owned and/or controlled by the same controlling shareholder.</td>
</tr>
<tr>
<td>Standard Agreements</td>
<td>Written agreements set unilaterally by an Financial Service Institutions and contain standard clauses concerning the contents, formats, as well as method for preparing, and are used for making offers of products and/services to Consumers in large.</td>
</tr>
<tr>
<td>State Security (SUN)</td>
<td>Securities in the form of letters of indebtedness denominated in rupiah as well as foreign currencies, which interest and principal payments are guaranteed by the Unitary State of the Republic of Indonesia, in accordance with the validity periods.</td>
</tr>
<tr>
<td>State Sharia Securities (SBSN)</td>
<td>State securities, which are issued based on sharia principles and denominated in rupiah as proofs of parts of participations in SBSN's assets.</td>
</tr>
<tr>
<td>Systemic Bank</td>
<td>A bank which, due to the sizes of its asset, capital, and obligations width of networks or complexity of transactions in banking services; as well as linkages with other financial sectors, may cause failures on the part of some or all other banks or the financial services sector, both operationally and financially, if the bank experiences a disruption or failure.</td>
</tr>
<tr>
<td>Trustee</td>
<td>A bank as the party given the authority by the Settlor to manage properties/funds for the interest of the party who receives the benefits, namely the Beneficiary.</td>
</tr>
<tr>
<td>Ujroh</td>
<td>A reward that given or asked for a job that has been done.</td>
</tr>
<tr>
<td>Wadi'ah</td>
<td>An agreement for the custody of goods or money between the party who owns the goods or money and the entrusted party with the purpose of safe keeping, security, as well as keeping the goods or money intact.</td>
</tr>
<tr>
<td>Walk In Customer (WIC)</td>
<td>Users of bank services who do not have accounts at the concerned bank, not including parties who receive orders from or are tasked by bank customers to conduct transactions for the interest of the customers.</td>
</tr>
</tbody>
</table>